

FINANCIAL TIMES

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the week
with...



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to your diamonds

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for the pill

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hall of fame

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World Business Newspaper

L'Oréal to expand with \$660m bid for Maybelline in US

L'Oréal, the French cosmetics company, is to pay \$660m for Maybelline, the US cosmetics company part-owned by New York investment house Wasserstein Perella. The bid values the shares at \$36.75 each and includes the assumption of \$150m in debt. Shares in Maybelline, the second biggest US cosmetics company, after Revlon, closed on Friday at \$31, having risen 16 per cent in two days on bid speculation. Page 21

King Hussein cracks down on critics

King Hussein of Jordan (left) has moved to tighten security and crack down on opponents of his country's foreign policy. Over the weekend, police arrested the monarch's most vocal critic, Leith Shubailat, on charges of creating civil strife. In a recent speech Mr Shubailat accused the Hashemites of treachery and denounced Jordan's new hardline stance against Iraq. He has also criticised the king's relationship with Yitzhak Rabin, Israel's assassinated prime minister. Page 4

Unrest in Japanese opposition party:

Japan's opposition New Frontier party was plunged into internal division after a leadership bid by Tsumoto Hata, a former prime minister and deputy leader of the NFP, faced a challenge from his rival, Ichiro Ozawa, the party's secretary general. Page 5; Editorial Comment and Observer, Page 19

British rock star tops \$27m in earnings:

Phil Collins was Britain's best-paid rock star last year with disclosed earnings of more than £24m (\$37m), followed by Elton John, Eric Clapton, Sting and Annie Lennox. Page 6

Japan under pressure to close N-reactors:

The Japanese government came under domestic pressure to abandon the centrepiece of its energy policy after the discovery of a leak in its newest nuclear reactor. Page 5

GrandMet faces vodka challenge:

GrandMet's use of the Smirnoff trademark in the US, where it is the leading vodka brand, is to be challenged in court by descendants of Peter Smirnoff, supplier of vodka to the last tsar. Page 22

Grenada in talks over Forte disposals:

Grenada, the UK leisure and TV group in the middle of a £3.2bn (\$5bn) hostile bid for Forte, has had discussions with the Takeover Panel about the hotel group's disposal programme. Page 22

UK tobacco group loses boardroom battle:

BAT Industries, the UK tobacco and financial services group, lost a boardroom battle over the chairmanship of ITC, India's largest tobacco group in which it holds a stake of almost 33 per cent. Page 21

Zurich to launch insider trading probe:

The Zurich Stock Exchange's commission is to launch an internal investigation into possible insider trading before Elektrowatt made its SFr500 (\$340) per share bid for Landis & Gyr. Page 22

Salomon Inc adds three to board:

Salomon Inc, the parent of the Salomon Brothers investment bank, has added three new members to its board. The appointments will take effect from February 7 next year. Page 22

Dana sights London quote:

Dana Petroleum, which produces oil in western Siberia in partnership with some of Russia's largest energy companies, is expected to announce today its intention to list on the London Stock Exchange. Page 22

Munich Reinsurance, the world's largest reinsurance company, expects profits this year to be at least as high as in 1994-95. Page 23

Scientists receive Jupiter data:

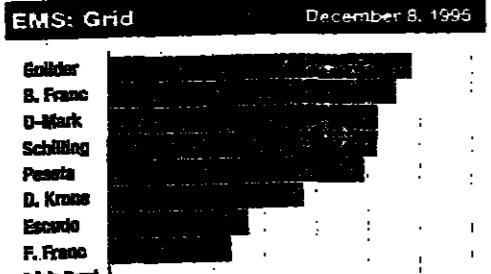
Nasa scientists have received the first data from Galileo, the US space probe to Jupiter. Page 4

Scottish business fears on devolution:

The heads of some Scottish companies have stated their opposition to the UK opposition Labour party's plan to create a Scottish parliament if it wins the next general election. Page 6; Editorial Comment, Page 19; Tories hit back, Page 20

European Monetary System:

There was no change to the order of currencies in the EMS grid last week, or to the spread between strongest and weakest. The French franc stayed firm despite a trimming of interest rates and widespread political protests. The focus this week is on the Bundesbank council meeting where there is a good possibility of a cut in interest rates. Currencies, Page 33



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the Escudo which move in a 2.5 per cent band.

Juppé bows to pressure French PM agrees to hold talks with unions

By John Riddings
and David Buchan in Paris

Mr Alain Juppé, the French prime minister, last night bowed to pressure and agreed to meet union leaders in order to "find a solution" to the strikes and national demonstrations which have had "catastrophic economic consequences".

Speaking on television, Mr Juppé conceded the union leaders' demand for a top-level meeting for the first time during the 17-day transport strike.

He indicated, however, that he still did not intend to back away from the principles of his welfare reforms which were necessary for the long-term health of the social security system.

Mr Juppé hinted he would use a guillotine procedure to stop the reforms from being filibustered by the socialist opposition in parliament.

Mr Juppé said he would first meet the leaders of France's fragmented union movement separately, but that he was not averse to a subsequent "social summit" meeting with them all. Up to now Mr Juppé has pointedly preferred to talk of consultation rather than negotiation with the unions, but last night the embattled prime minister said this was "all semantics" and that "the important thing is to get around a table and find a solution".

Earlier, a series of talks over the weekend, the first between the government and union leaders, had failed to achieve a breakthrough in the strike.

Rail unions, which have been at the forefront of the strikes against controversial welfare reforms and a proposed restructuring at the rail network, pledged to continue their action following talks with Mr Jean Mattozzi, the government-appointed mediator.

They claimed that concessions, including a week's delay in the signing of the rail restructuring plan, were inadequate to defuse the crisis.

Leaders from Force Ouvrière and the communist CGT, the two unions spearheading the protests, also vowed to step up the pressure on the embattled government after their first talks with Mr Jacques Barrot, the social affairs minister. Mr Marc Blondel, the head of Force Ouvrière, demanded direct negotiations with Mr Juppé and said his union would join forces with the CGT tomorrow for the latest day of national protests in an escalating campaign of demonstrations.

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Mr Juppé faces a critical week as he seeks to push through plans to eliminate the country's annual FF60bn (\$42bn) welfare deficit. The strike is damaging an already weak economy, but the prime minister's credibility is based on an easing of the dispute as well as raised by signs that the government is prepared to negotiate on some aspects of its proposed reforms and a broadening of the rail mediator's mandate to include the sensitive issue of pension conditions.

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NEWS: RUSSIA'S ELECTIONS

Communists to profit from painful transition

By Chrystia Freeland

Russia's first communist government came to power through a violent coup in 1917. A new generation of communists is counting on parliamentary elections on Sunday to regain political power.

The communists and loosely aligned nationalists are hoping that Russia's 105m voters will overwhelming choose the "red-browns", as the communist-nationalist bloc is known, from the rainbow of 43 parties contesting the ballot.

Paradoxically, Russian reformers have come to fear that on December 17 they will be victims of their own success. In 1991, the Yeltsin team ended more than 70 years of communist dictatorship with the twin slogans of democracy and capitalism. Today, opinion polls are warning the Yeltsin administration that it risks being toppled by its very achievements.

In spite of the many fallings of Russia's nascent market economy, the government has broadly delivered on its promise of market reforms. More than 80 per cent of the industrial workforce is employed in enterprises which are at least partially in private hands and this month inflation is expected to come down to 4 per cent, its lowest level since the collapse of the Soviet Union. In its 1995 report, the Organisation for Economic Co-operation and Development predicted that, if Moscow sticks to its reformist course, GDP could grow by 10 per cent next year.

But, at the ballot box, these achievements are expected to lead to defeat. When it launched its bold privatisation programme in 1992, the Russian government chose speed over fairness, arguing that only swift change could overcome the country's deep resistance to private property. But privatisation has been reviled as a grossly unjust transfer of Russia's most valuable assets to favoured insiders. The second wave of privatisation, now in full swing, has strengthened that perception with deals such as last week's sale of 5 per cent of Lukoil, Russia's biggest oil company, for \$35m to a consortium which includes Lukoil management, Atlantic Richfield, the US oil company, paid \$250m for a 6 per cent stake in Lukoil in September.

By the same token, this year's austere fiscal and monetary programme has won more favour with the International Monetary Fund than with the Russian people. The tough stabilisation measures have reined in inflation and strengthened the rouble, but the drastic cut in government spending on social programmes has led to a decline in average living standards.

It is these painful consequences of the transition from central planning to a market economy which allow Mr Gennady Zyuganov, the leader of the Communist party, to thunder over the campaign trail: "Of all the disasters that have befallen Russia during her long and tragic history, this is the worst." Similarly, the communists' ally, the Congress of Russian Communities, Russia's recently formed nationalist party, is expected to do well with its promises to crack down on government corruption and restore the greatness of the Russian nation.

Earlier in the year, many political and business leaders had assumed that the populist appeal of the communists and nationalists would be beaten by the political muscle of Our Home is Russia, the pro-government party formed this April. Led by Mr Victor Chernomyrdin, the prime minister, the new party had been expected to dominate because of its control over the government machine. But, outside of

Moscow and St Petersburg, Our Home is Russia's political presence has been faint. Regional leaders appear to have quietly decided that backing the current rulers is not in their best interest.

As a result, most analysts expect a communist-nationalist victory at the polls on Sunday. Attention has turned to assessing what this will mean.

One conclusion is that a communist triumph will be proof of the strength of Russian democracy. As Mr Sergei Belyayev, campaign manager of Our Home is Russia, explained: "I am glad that the government is unpopular. It means that we've sown the seeds of democracy in our country."

Mr Belyayev's comment suggests preparation for defeat, but it also suggests that Russia has gone a long way towards becoming a democracy – even if its expression of free choice is likely to be the election of

Communists. The growing strength of Communists and nationalists has also revealed how deep the rifts are within Russia's ruling élite.

The monolithic communist nomenklatura has been replaced by a governing class whose only shared characteristic is a love of power. The deepest rift is between Mr Anatoly Chubais, deputy prime minister and architect of economic reforms, and the regional bosses.

But the biggest, unanswered question about Sunday's vote is whether it could lead to a return to the sort of Communist regime created by the Bolsheviks and foisted by generations of western governments. The short answer is no. Even if a communist-nationalist alliance wins a majority in parliament, its potential to roll back reforms would be limited.

Under the Russian constitution, the parliament is a weak creature, dominated by the most powerful presidency in Europe. Mr Zyuganov's description of the Russian president as a post "more powerful than the Russian tsar, Soviet general secretary and Egyptian pharaoh put together" is an exaggeration.

Within the ruling élite is likely to have long-term consequences because it could hamper the central government's continued ability to enforce painful reforms.

But a worse nightmare is

that a strong showing by the communists and nationalists on Sunday would be a harbinger for a communist or nationalist victory in presidential elections next June.

THE COMMUNISTS

Best chance of power for the 'Old Believers'

By John Thornhill

Moscow's world-famous Bolshoi theatre has recently been stunning audiences with a new production of *Khovanshchina*, Mussorgsky's opera which recounts the 17th century Liberal Democratic Party of Russia (LDPR) as the mainstream nationalist grouping in parliament with a more sympathetic stance towards the Communists.

If Mr Zyuganov can harness such forces to construct a parliamentary majority commanding two-thirds of the votes he will gain formidable powers to shape the legislative agenda.

Mr Zyuganov readily meets western journalists and recently spoke warmly about a mixed economy and the encouragement of foreign investment. By turns contemplative and genial, the stocky party leader is not an ideologist. He sprinkles his talk with references to his overseas trips, his chats with US President Bill Clinton, and the "socialism" of Jesus Christ.

His seeming moderation has lulled foreign investors into a sense of indifference.

But, unsurprisingly, Mr Zyuganov's language is more overtly nationalistic when he talks to his native electorate in the industrial heartlands and rails against the influence of foreigners, the corruption surrounding privatisation, and the incompetence of the "tsar-president".

Some polls suggest that the Communists, with allies such as the Agrarian party, may be able to implement such a programme on their own.

If they fall short of a majority, they could expect to find backing on core planks of their programme from the nationalists.

Mr Zyuganov has appeared keen to befriend the nationalist Congress of Russian Communities (KRC), which has co-opted General Alexander Lebed, the charismatic former military commander, as its popular figure.

Mr Zyuganov has even hinted he might be prepared to endorse General Lebed as the Communists' preferred presidential candidate in June 1996. So far, KRC has distanced itself from Mr Zyuganov's approaches, but the parties have begun to co-operate at local level in some regions.

KRC, which was founded in 1993 to represent the interests

of Russians living outside Russia but has since broadened its mandate, has no deputies in the current parliament. Its support appears to be waning, but it could conceivably replace Mr Vladimir Zhirinovsky's extreme Liberal Democratic Party of Russia (LDPR) as the mainstream nationalist grouping in parliament with a more sympathetic stance towards the Communists.

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The party's 500,000 members – more than all other 42 parties combined – contain many revolutionaries who will allow no backsliding on promises to redistribute the country's wealth.

Mr Yegor Gaidar, the former prime minister who leads the liberal Russia's Choice faction, paints an alarming picture of what would happen if the Communists – with or without nationalist help – did gain a parliamentary majority.

Their victory would spark a currency crisis as Russians dumped roubles, compelling the Communists to reimpose foreign exchange and price controls and renationalise strategic industries.

"It is now or never for the Communists," Mr Gaidar says. "If they do not win these elections they will forever remain the party of protest. The old age of their supporters means their votes will die out."

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ELECTING A NEW PARLIAMENT

The country

West: seat of Russia's powerful central government, Moscow has benefited disproportionately from economic reforms. Prosperous Moscowites have also been banished with pro-government advertisements absent in many other cities.

South: the nation's bread-basket has suffered from an acute crisis which this autumn brought the poorest harvest for three decades. Rural areas are expected to support the Agrarian Party, country cousin of the communists.

Centre: the industrial heartland has been hard-hit by austere fiscal and monetary policies which have brought many factories to a standstill and led to high levels of hidden unemployment. Communists are expected to do well.

The runners

Main parties and groupings, ranging from central planners to free marketeers [prominent politicians in square brackets]

Communist camp

■ Communist Party of the Russian Federation [Gennady Zyuganov]
■ Agrarian Party of Russia [Mikhail Lapshin]

Power to the People bloc [Nikolai Ryzhkov], Tikhonov-Tupolev-Tikhonov bloc, Social Democratic Coalition for the Defence of Pensioners and Veterans, Communists-Working Russia-For the Soviet Union

Nationalists

■ Congress of Russian Communities [Yury Skokov, Alexander Lebed]
■ Liberal Democratic Party of Russia [Mikhail Zhirinovsky]
■ The Derzhava (Great Power) movement [Alexander Rutskoi]

Russian Nationwide Movement, My Fatherland, For the Motherland, National Republican Party of Russia, Stanislav Govorukhin's bloc

Centrists

■ Party of Russian Unity and Accord (PRES) [Sergei Shatalov]

■ Workers' Self-Government Party [Svyatoslav Fyodorov], Duma-96, Transformation of the Fatherland, Stable Russia, Russian Trade Unions and Industrialists-Labour Union

Pro-government

■ Our Home is Russia [Victor Chernomyrdin]
■ Russia's Democratic Choice-United Democrats [Yegor Gaidar]
■ Forward Russia [Boris Yeforov]
■ Common Cause movement [Irina Khakamada], Christian Democratic Union-Christians of Russia, Pamfilova-Gurov-Vladimir Lysenko bloc (the Republican Party of Russia), Economic Freedom Party

Economic reformists

■ Yabloko [Grigory Yavlinsky]
■ Russia's Choice

■ Forward Russia [Boris Yeforov]
■ Common Cause movement [Irina Khakamada], Christian Democratic Union-Christians of Russia, Pamfilova-Gurov-Vladimir Lysenko bloc (the Republican Party of Russia), Economic Freedom Party

Shifting alliances: where the seven stood in the outgoing parliament, October 1995

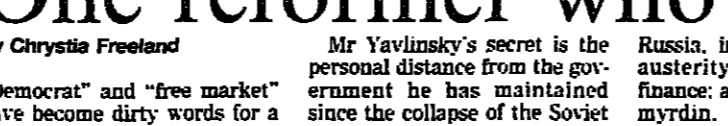
262 seats out of the Duma's total of 450



Source: Interfax, The Moscow Times, Centre for Transition Economics "A Pre-Election Guide", Morgan Stanley, FT

The parliament

The December 1995 elections: how the seven main groupings scored 301 seats out of the Duma's total of 450 (% of popular vote)



Source: Interfax, The Moscow Times, Centre for Transition Economics "A Pre-Election Guide", Morgan Stanley, FT

PROFILE: GRIGORY YAVLINSKY

By Chrystia Freeland

One reformer who evades voters' wrath

Mr Yavlinsky's secret is the personal distance from the government he has maintained since the collapse of the Soviet Union.

All of Russia's other pro-reform parties are tainted by their ties to the painful economic changes the country has undergone. Mr Yegor Gaidar, leader of Russia's Choice, was the prime minister who introduced the price liberalisation which wiped out the nation's savings overnight; Mr Boris Yeforov, leader of Forward

Russia, imposed painful fiscal austerity when minister of finance; and Mr Victor Chernomyrdin, the prime minister and leader of Our Home is Russia, is blamed for the fall in living standards which Russians have experienced this year.

By contrast, Mr Yavlinsky – one of former Soviet president Mikhail Gorbachev's bright young economists in the dying days of the Soviet Union – has been a consistent critic of the Yeltsin administration since it

took over the Kremlin nearly four years ago.

Mr Yavlinsky is the only political leader who can credibly both attack the government and advocate market reforms.

As Mr Yavlinsky puts it:

"The main question of these elections is why did 5 per cent of the people get so much that it is impossible to imagine and 95 per cent get nothing at all.

The second question is whether this is the fault of the market economy or is this

because of how reforms were carried out."

For the elderly, the military and blue-collar workers, who have suffered most from economic reforms, his moderate message is unlikely to carry as much punch as the avenging rhetoric of the Communists and nationalists. But for the young, for professionals and for Russia's burgeoning middle class, Mr Yavlinsky offers a more palatable alternative to the widely despised current regime.

Opinion polls suggest that several parties, including Russia's Choice, the Congress of Russian Communities, the Liberal Democratic Party of Russia, and the Agrarian party, are around the 5 per cent mark, so comparatively small electoral swings could have a big impact on the shape of the legislature. If, for example, the liberal Russia's Choice group slipped marginally below the threshold while the other three parties just scraped over it, it would give parliament a decidedly more nationalist edge.

For this reason, there have been calls for the abolition of the 5 per cent rule although it is unlikely to be changed at this late stage. Supporters of the threshold argue it will exclude many extremist candidates from the whole of parliament.

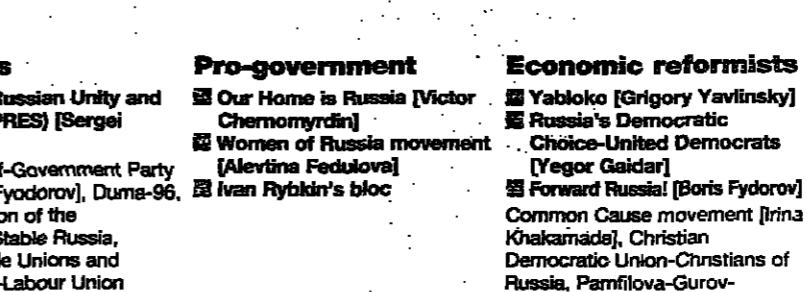
The two different methods of electing deputies mean that the total number of votes cast does not automatically translate into representation in parliament.

For example, in 1993, the Russia's Choice faction won 15.5 per cent of the votes but received 19.2 per cent of the seats in parliament because of its strength in single member constituencies. The Liberal Democratic Party of Russia won 22.9 per cent of the vote but ended up with 14.2 per cent of the seats.

If the opinion polls are right, the parliament will be highly fragmented and parties will have to form tactical voting alliances if they are to exercise real influence.

There is a government-appointed Central Electoral Commission charged with overseeing the election and regulating television advertising time.

But its authority has already been called into question after the Supreme Court overruled its controversial decision to ban the Yabloko and Derzhava factions for minor infringements of the electoral law.



Maritime talks 'may founder over US'

By Francis Williams in Geneva

Trade officials warned at the weekend that international negotiations to liberalise maritime transport were in danger of running aground over Washington's reluctance to open its own shipping sector.

The talks, under World Trade Organisation auspices, are due to conclude next June but so far have made scant progress.

The latest round of negotiations, which ended on Friday, was again dominated by a row

between Washington and trading partners over a new US law lifting a ban on exports of Alaskan oil but reserving shipments for US-flag carriers.

The European Union, backed by Japan and Norway, says the law breaks "the spirit and the letter" of a standstill pledge taken by all WTO members to refrain from moves which improve their bargaining position during negotiations.

The US argues that the new law makes no difference because, while the export ban

was in force, shipments were already confined to US vessels under the 1920 Jones Act limiting coastal traffic to US-owned, registered, built and crewed ships.

Other nations maintain that the move entails an extra restriction on international shipping.

"It has given a seriously negative signal to the talks," says one EU official.

Anger over the US position has been compounded by its failure to make a formal market-opening offer on maritime

services, part of the unfinished business left over from the Uruguay Round of global trade talks.

This has led to accusations from Brussels that the US is not negotiating in good faith.

Washington says others have not been sufficiently forthcoming for it to come forward with an offer of its own. But trading partners fear that the US administration, under pressure from the powerful shipping lobby, has no intention of relaxing strict reciprocity provisions and other restrictions

governing its deep-sea shipping sector.

Although only six of the 42 participants in the maritime talks have so far made offers, they include some of the world's leading shipping nations - the EU (whose 15 members include Greece and Denmark), Japan, Norway, Canada, Australia and New Zealand. Chile, Colombia and Nigeria have said they will make offers soon.

Mr Don Kenyon of Australia, chairman of the negotiating group, has appealed for all par-

icipants to come up with offers and requests before talks resume in February. Unless there is a significant improvement in the negotiating climate he intends to call a meeting of top trade officials in March or April to try to break the logjam.

Trade diplomats warn that the row within the maritime talks could spill over into separate negotiations on basic telecommunications, due to end in April, where the US is the main driving force for greater liberalisation.

Central bank officials denied there had ever been a formal timetable although, earlier in the year, the bank said it expected ratings would be announced in November. In late summer, Romania invited several international agencies including Standard & Poor's and Moody's to give it a rating ahead of its first Eurobond issue, originally planned for late this year or early 1996.

Since then, the national currency, the leu, has depreciated by about 30 per cent against the US dollar, partly because of the increasing trade and current account deficits.

Pressure on the leu has also increased due to delays in reaching agreement with the International Monetary Fund and World Bank, upon which the country is dependent for external funding.

Virginia Marsh, Romania

Romania delays debt rating

Romania has delayed seeking a sovereign debt rating until the spring because of balance of payments problems. The country is heading for a current account deficit of \$1.5bn (£940m), up from about \$400m last year. This follows a 40 per cent rise in imports amid signs that the economy is overheating.

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Polish election valid, says court

Poland's High Court ruled at the weekend that Mr Aleksander Kwasniewski, the country's president-elect, had in official documents about completing his higher education. But it declared the result of the election to be valid.

The decision came after over half a million supporters of President Lech Wałęsa, who narrowly lost last month's election, protested that Mr Kwasniewski's assertion about completing his studies at Gdańsk University in 1978 had won him votes.

She could handle much-needed reforms of competition, company and labour law, or perhaps supervise disbursement of EU structural funds. These should account for almost 5 per cent of GDP yearly over the next four years, but are delayed by inefficiency in Athens.

If Mr Arsenis wins the race, perhaps by offering Mr Tsachopoulos the post of Pasok chairman in return for his backers' votes, a large question mark will hang over the future of Greece's convergence programme for participating in EU monetary union.

He resigned in December 1987 during a budget debate where Mr Papandreu without warning announced extra public sector wage increases, which as Mr Arsenis predicted, meant the stabilisation targets could not be achieved.

Now the two men's roles are reversed. Mr Arsenis is defence minister, following a reconciliation with Mr Papandreu while Pasok was in opposition, but Mr Arsenis is a rebellious backbencher after resigning two months ago as industry minister over the failed privatisation of Greece's largest shipyard.

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Mr Arsenis also ignored the explosive growth in public sector deficits resulting from the Socialist's decision to introduce index-linked wage and pension increases.

It was left to Mr Simitis to pick up the pieces when he took over as economy minister after a quarrel between Mr Papandreu and Mr Arsenis, who was thrown out of Pasok and formed a short-lived political party of his own.

Mr Simitis launched a stabilisation programme agreed with the EU in 1995 in return for a balance-of-payments loan.

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NEWS: INTERNATIONAL

Move likely to leave KIA vulnerable to political vagaries, say analysts

Kuwaiti investment chief to quit

By Robin Allen

Mr Ali Rashaid al-Bader, managing director of the Kuwait Investment Authority (KIA), the country's lender of last resort and guardian of its overseas assets, is to step down in three months, according to a statement issued yesterday.

Analysts said Mr Bader's resignation, "for private reasons related to his family's business", would leave the country's most sensitive financial institution more vulnerable than ever to the vagaries of Kuwaiti politics in the run-up

to next October's national elections. There were no real clues as to who would succeed him, they added.

The resignation statement was issued by Mr Nasser al-Rodhan, finance minister.

Mr Bader has been head of the KIA since March 1993. Bankers said he had indicated at the time of his appointment that he would not stay more than four years.

But one analyst said the news of his resignation first became public yesterday - "a casual remark to a passing journalist from a local Arabic

paper" - reflected the degree to which he had become tired of the constant political pressure and the strained relations that had developed with government ministers.

Many ministers are unwilling to accept the continuing litigation in London and Spain against former senior officials of the Kuwait Investment Office (KIO).

Last May the UK Court of Appeal ruled that the KIO could use the English courts to pursue its \$500m (£318m) claim against former KIO directors and former directors of its

Spanish subsidiary, Gruppo Torras.

According to Mr Jassim al-Saoud, head of Alshall Economic Consultants, an independent unpaid consultant to Kuwait's national assembly, Mr Bader's tenure had been marked by "complete integrity in helping the political leadership work on these court cases. But the cost, in terms of political pressure, is enormous."

Apart from overseeing the privatisation of many companies in which the KIA had a stake, the job of managing the authority involved appointing

the boards and overseeing management of the 62 companies in which the government still has a stake, 37 of which are quoted on the stock exchange.

But Mr Bader's main task, as he recently described it, had been to conceive and oversee the implementation of a strategy to restore the country's financial self-respect after the chaos following the 1992 collapse of the unofficial stock market, the damage resulting from KIO mismanagement, and \$5bn of losses incurred in Spain.

Hussein moves against opponent

By James Whittington in Cairo

King Hussein of Jordan has moved to tighten security and crack down on opponents of his kingdom's foreign policy.

Over the weekend, police arrested the monarch's most vocal critic, Mr Leith Shabalat, on charges of creating civil strife. In a recent speech Mr Shabalat accused the Hashemites of treachery and denounced Jordan's new hard-line stance against Iraq. He also criticised King Hussein's relationship with Mr Yitzhak Rabin, Israel's assassinated prime minister.

In criticising the king's new policy of promoting a change of government in Iraq, Mr Shabalat, a maverick Islamist who heads Jordan's engineers union, voiced a widespread view in Jordan that the kingdom is too closely aligned to Israel and US policy.

King Hussein made a clean break from his earlier conciliatory stance toward Baghdad in August, when he gave asylum to two top Iraqi officials and members of President Saddam Hussein's family. Since then he has indicated that Jordan would be willing to host a meeting of Iraqi opposition groups to discuss ways of replacing the regime.

Last week Jordan demonstrated its new stance by announcing the interception at Amman's international airport of an illegal shipment of Russian-made parts for a missile guidance system destined for Iraq.

The find was in clear breach of UN sanctions and the Russian foreign ministry has denied any knowledge of the shipment. Before the Gulf war, Jordan was an important conduit for weapons destined for Iraq.

In a separate incident, Jordan has expelled the second most senior diplomat in the Iranian embassy in Amman for "francophone considerations". A government official said Mr Saed Batani had been caught planning an attack on Israeli tourists in the city of Petra.

Iran expelled a Jordanian diplomat in retaliation.

• Amman yesterday said it was willing to host a meeting to chart Iraq's future course but rejected suggestions it was meddling in Iraqi internal affairs. Reuters adds from Dubai: Mr Abdul-Karim al-Kabir, Jordanian foreign minister, said during a visit to Qatar that such a meeting could include Iraqi opposition figures but that details had yet to be agreed.

The idea of the meeting gained ground at meetings in London last month between King Hussein and Iraqi opposition figures. Diplomats said the king indicated in private he would like to host a conference to get the divided opposition together.

INTERNATIONAL NEWS DIGEST

Peres seeks to spur peace talks

Mr Shimon Peres, the Israeli prime minister, meets US president Bill Clinton in Washington today to discuss efforts to restart peace talks between Israel and Syria.

Mr Peres, in his first visit to the US since taking over the premiership last month after the assassination of Mr Yitzhak Rabin, said he would bring "new initiatives" to the White House in an attempt to accelerate the peace talks, which have been deadlocked for four years. He is also scheduled to meet Mr Warren Christopher, secretary of state, and Mr William Perry, defence secretary.

Proposals are expected to deal with the nature of negotiations as well as the extent of Israeli withdrawal from the occupied Golan Heights and subsequent security arrangements. Mr Peres has called for negotiations to be elevated to executive level, which would include a summit between him and Mr Hafez Assad, the Syrian president, in the presence of Mr Clinton. Mr Assad has previously refused such a meeting until Israel accepts Syrian demands, which include a full withdrawal from the Golan Heights, occupied by Israel in 1967.

Mr Peres has also publicly Israel's need to "pay the price for peace", but has not elaborated on what this may be. He said he was prepared to outline the steps Israel would need to take, perhaps before the Knesset, but not until Syria also stated concessions it was willing to make.

• Israel yesterday continued its scheduled redeployment from West Bank towns by leaving Tulkarm, the second town to be evacuated since the signing of the second stage of the Israeli-Palestinian peace agreement in

Mark Dennis, Jerusalem

Canada to privatise air control

Canada will privatise its civilian air-traffic control network as part of a drive to reduce taxpayers' exposure to loss-making transport facilities. The network, comprising 55 control towers, seven area control centres and 105 flight service stations, will be sold for C\$1.5bn (£571m) to Nav Canada, a new non-profit company controlled by domestic airlines, general aviation operators, pilots and air-traffic employees.

The sale was smoothed by Ottawa's agreement to provide severance packages worth C\$116m to the 6,400 employees who will be transferred from the civil service to Nav Canada.

The government supports the air-traffic control system with about C\$200m a year in subsidies. Mr Doug Young, transport minister, said "what we are going to be doing is asking the carriers and the passengers to pay the cost of the air navigation system". For instance, charges will be levied for the first time on foreign aircraft that overfly Canada without landing. Mr Young has indicated that the St Lawrence Seaway, which administers shipping traffic along the St Lawrence River and through the Great Lakes, may also end up in private hands.

Bernard Simon, Toronto

Beijing warms to Nigeria

China has signed a \$520m (£329m) contract to overhaul Nigeria's railways and deliver new locomotives, disregarding calls to isolate the African country on human rights grounds. Beijing also said the new Export-Import Bank of China had agreed to provide \$12m in preferential state loans to Sudan's Islamic military government to develop oilfields, the first foreign project funded by the fledgling policy bank.

Nigeria's military government and its execution of nine human rights activists last month have prompted the US, EU and some African states to impose an arms embargo and withdraw their ambassadors. The Commonwealth has suspended Nigeria from its membership.

Reuter, Beijing

MP shortfall in Kazakhstan

Voters in Kazakhstan failed to elect enough members of parliament to make a quorum in the central Asian nation's new 67-seat lower house of parliament, forcing an unscheduled run-off. Despite a high turnout of 78 per cent, only 43 candidates, three short of the two-thirds quorum needed to seat the legislature, obtained the absolute majority required by Kazakh election law. The political affiliations of the victors were not clear as candidates are prohibited from declaring their parties on the ballot.

Western observers noted violations such as multiple voting which possibly inflated the turnout in Saturday's elections.

President Nursultan Nazarbayev disbanded the sitting parliament in March, citing improprieties in the 1994 elections. Since then he has won two referendums extending his term to the year 2000 and passing a constitution which creates a strong presidency. The new two-chamber parliament can neither initiate legislation nor impeach the president. An upper house, the Senate, was successfully formed after elections on December 5.

Matthew Kaminski, Moscow

Qatar reviews membership of Gulf group

By Robin Allen

Qatar is reviewing its membership of the Gulf Co-operation Council (GCC) but has made no decision "as yet" whether to withdraw, according to Sheikh Hamad Bin Jassim al-Thani, foreign minister.

Last week the Qatari delegation boycotted the final session of the GCC heads-of-state summit in Muscat, the Omani capital.

The immediate reason given for the walk-out was the rejection of Qatar's nominee for GCC secretary-general in favour of the Saudi candidate, Mr Jameel al-Hujailan, a Saudi national.

Sheikh Hamad said that, in Qatar's view, the appointment was a "substantive" not a "procedural" matter, and it required the unanimity of the heads of state. However, he hoped the GCC legal committee could find a solution. "We will abide by the committee's decision," he added.

Sheikh Hamad said the pres-

ent "deadlock" was the culmination of six months of unsuccessful efforts to get Qatar's neighbours to recognise its right to have one of its nationals fill a senior post in the GCC's secretariat. According to foreign ministry officials in Doha, 90 per cent of the GCC's secretarial staff in Riyadh is made up of Saudis and not one of the 10 most senior posts has ever been allocated to a Qatari.

Sheikh Hamad, a cousin of Qatar's head of state and prime minister Sheikh Hamad Bin Khalifa al-Thani, said he would join other GCC foreign ministers of the Damascus Declaration, which groups the GCC with Syria and Egypt, who are due to meet in Damascus on December 27-28. Qatar is due to host the next GCC summit in Doha in December 1996.

Collectively the GCC owns more than 40 per cent of proven global oil reserves as well as 15 per cent of the world's known reserves of natural gas. Qatar alone possesses a third of GCC gas reserves.

Scientists receive Jupiter probe data

Nasa scientists yesterday received the first data from the space probe Galileo, which may give Earth its first close look at the planet Jupiter. Reuters reports from Los Angeles.

The radio message from Galileo is expected to give scientists their first measurements of the huge planet's atmosphere, composition, climate and weather patterns.

While scientists were cheered by the successful reception of data, they will not know the quality of the information until the Galileo team analyses it.

Galileo's secondary probe gathered its data on Thursday as it hurtled through clouds of water, helium, oxygen and nitrogen and endured Jupiter's hurricane-like winds and violent lightning storms.

The secondary probe's communication with Galileo cut off after 75 minutes, after which scientists say it was almost certainly crushed and vaporised by the extreme pressure and high temperatures found in Jupiter's upper atmosphere.

During the next two years Galileo will make 11 orbits of the planet.

But was drug-money needed to explain Raúl's rapid enrichment

INTERNATIONAL PRESS REVIEW

Salinas saga plays to an enthralled nation

MEXICO

By Leslie Crawford

Something is rotten in Mexico. The saga of the Salinas clan, now featuring in every Mexican newspaper, radio and television station, surpasses anything Hamlet could have dreamed of. It involves stupendous wealth, political intrigue and corruption and, like the best melodramas, no one knows how it will end.

With Carlos Salinas, Mexico's former president, in self-imposed exile, his elder brother Raúl in jail on charges of plotting to murder a leader of the ruling party, and Raúl's wife Paulina detained in Switzerland under a money-laundering investigation, the plot took a dramatic twist last week when Mrs Carla del Ponte, the Swiss attorney-general, arrived in Mexico.

Mrs del Ponte said she had come to question Raúl about the origin of some \$100m (£63m) he holds in Swiss bank accounts. She said there were grounds to suspect his fortune was related to drug trafficking.

Her carefully-worded statement fell like a bombshell. It was the first time a senior law-enforcement officer, and a foreign one at that, had linked a member of the Salinas family to drugs. The Mexican press, with few libel laws to restrain its vivid imagination, ran riot.

"Corruption, violence and money laundering - the hallmarks of the Salinas administration," ran the front-page headline in *El Financiero*. The article claimed, among other things, that several drug barons had sway over Los Pinos, the presidential palace, while Carlos Salinas was in power, and that many state-owned companies privatised by the Salinas administration had gone to Mexican and Colombian drug traffickers.

But was drug-money needed

ment while his brother was president? Not according to *El Sol de México*, a pro-government daily, which believes venal corruption sufficed.

Raúl Salinas did not need drug traffickers to make him rich," wrote a columnist under the name of Icarus. "He was showered with tempting business offers. There are those who allege Raúl raked \$2m a day from these deals during the 2,190 days of his brother's rule, which adds up to more than \$4bn."

After being questioned by the Swiss officials, Raúl Salinas said through his lawyer that he had earned his money through "business deals with Mexican entrepreneurs". He said he had sent his wife to Switzerland to bring back his investments so that they could be invested in Mexico to create jobs.

The claim, in a country suffering the worst recession in living memory, was greeted with howls of disbelief.

"Is there really so much kindness in Raúl Salinas's soul?" asked *El Sol de México*, one of Mexico City's biggest dailies. "Could it be that, in the face of all the accusations weighing against him, Raúl could still show such touching concern for Mexico's economic plight?"

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The former president's protestations were not believed.

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"Is there really so much

of rivals BSkyB, the British satellite broadcaster, and Canal Plus, the French pay-TV company.

Mr Hans Hawinkels, chief executive of Multichoice, said

"the squeeze" caused by the shortage of receivers would be felt most keenly in South Africa. About 25,000 South Africans had placed orders for the equipment.

Digital technology drastically reduces the fixed costs of broadcasting: between six and 10 television channels can be broadcast using the frequency

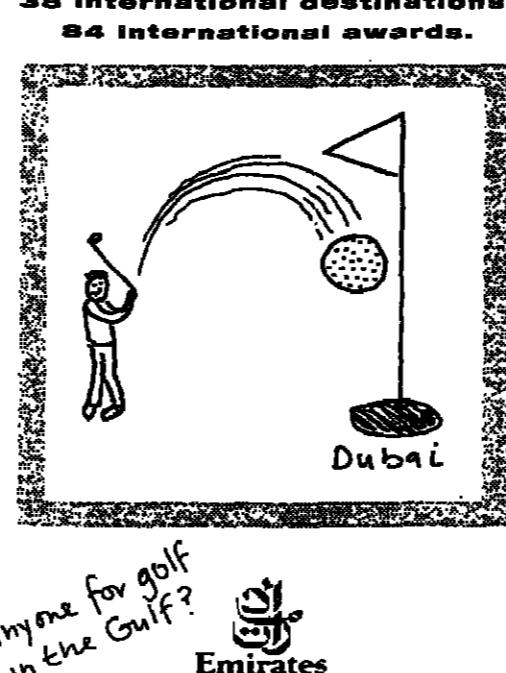
space of a single analogue channel.

Nethold recently placed orders for 1.1m digital receivers, worth about \$550m (£348m), with three manufacturers: Pace of the UK; National, Panasonic of Japan; and Philips, the Dutch electronics group. Of these, only Pace is manufacturing the receivers. Philips and Sagem Echostar, the Paris-based electronics company subsequently licensed by Multichoice to build the receivers, have yet to begin production.

RC & C Manufacturing, the South African company licensed by Panasonic to assemble the receivers, announced in August it had secured a \$500m export order from Multichoice to supply overseas markets.

Mr Alan Coward, chief executive of National, Panasonic holding company NPC (Electronics), said the fire, in which no one was hurt, had "potential to jeopardise the operation". Production was unlikely to resume at the Cape Town factory before February.

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Rao urged to sack telecoms minister

By SHIVAJI SIDHVA in New Delhi

India's Prime Minister, Mr P.V. Narasimha Rao, is under pressure from his party to remove Mr Sukh Ram, communications minister, from the cabinet, because of controversy surrounding the country's privatisation of its telecommunications sector.

The issue is set to dominate parliament today as opposition members, alleging corruption and mismanagement, threaten to embarrass Mr Rao's ruling Congress party only months before a general election.

The opposition disrupted parliament for three days last week when it accused Mr Ram of mishandling a tender to award licences to local and foreign companies to run telephone services and demanded his resignation.

Mr Ram has been trying to convince Mr Rao that the telecoms process has been transparent and that the controversy is premature because no licence has yet been awarded. Mr Ram denies allegations that he favoured a consortium led by Himachal Futuristic Com-

munications, a small and comparatively unknown company from his home state of Himachal Pradesh, which emerged as the highest bidder in nine of the 20 zones under tender.

The opposition has also said that the government's decision to announce a reserve price and introduce a cap on the number of regions a single company can operate basic and cellular services was designed to benefit Himachal Futuristic.

The government then allowed the company to choose three circles in which to operate basic telephony but is called for re-bidding in 10 other circles or zones. The decision to call for re-bidding caused consternation among foreign investors who have had to refer to their boards abroad before submitting fresh bids by January 1.

Many of the 16 companies affected say they cannot openly criticise the ministry's move nor take legal recourse for fear of jeopardising cellular licences that are expected to be granted to them later this week, and derailing the bidding for basic services.

"The government has to

make up its mind whether it wants experts in basic telephony to operate its networks, or whether it wants companies with no track records to take over," said one international telephone company representative.

Insiders say Mr Rao is perturbed by allegations of corruption against the communications minister, but is seeking a way out of dropping him.

"The prime minister would be admitting to corruption within the party and giving us a ready-made election issue if he agrees to drop Mr Ram, but he cannot retain him in the circumstances either," said a senior MP from the Bharatiya Janata party, India's largest opposition party.

Telecom companies agree that bidding for cellular licences has been transparent. Successful bidders for cellular service contracts were notified last month. Analysts say a tight market has made it difficult for most companies to raise the initial payment and the guarantees, the total amount of which is estimated to exceed Rs55bn (1bn).

Calls to close leaking Japanese N-reactor

By William Dawkins in Tokyo

The Japanese government yesterday came under domestic pressure to abandon the centrepiece of its energy policy after the discovery of a leak in its newest nuclear reactor.

Environmental groups and local politicians called on the government to close its experimental fast breeder reactor, Monju, the second largest of its type in the world, after the leakage of two to three tons of non-radioactive liquid sodium coolant, filling part of the reactor with thick toxic smoke. The reactor was shut down when the leak was found on Friday evening.

There was no escape of radioactivity, and no injuries were reported, officials said. But this is the latest and the most serious of a series of mistakes to hit a programme that has been widely criticised for being expensive, unproven and unnecessary at a time when nuclear fuel prices are falling.

Fast breeders are designed to produce more fuel than they burn, but cost far more to build than conventional light water reactors.

"This accident is a final warning before the occurrence of a massive nuclear disaster," said a statement by the Citizens' Nuclear Information Centre, a private sector study group, and banded to the government's Power Reactor and

Nuclear Fuel Development Corporation (PNC).

Mr Shoji Takagi, a member of the protest group Stop the Monju, said the accident was foreseeable, given the problems that other fast breeders had experienced in using liquid sodium as a coolant.

The PNC acknowledged that the leak was "a very serious setback" and Mr Masayuki Miyahashi, head of the Science and Technology Agency's Nuclear Safety Bureau, said that he took the accident seriously.

The leak aroused anger from politicians living near the reactor at the coastal town of Tsuruga, 320km west of Tokyo. Mr Yukio Ediba, governor of the

prefecture of Fukui, criticised the PNC, the state-owned reactor's operator, for waiting an hour after the accident before alerting central government. "This is an extremely regrettable loss of the prefecture's trust in the overall safety of Monju," he said.

Monju, named after a goddess of wisdom, started operating in August, 10 years after its inception, and was due to begin a test run tomorrow in preparation for start-up at full capacity next June. The 280MW capacity reactor cost Y500bn (53.7bn), around twice the price of the older 500MW reactors that Japan uses for most of the rest of its nuclear production.

Asean ponders role in post-cold war era

Signing of symbolic nuclear treaty will be high point of summit, reports Ted Bardacke

Vietnam's Communist rulers arrived in Thailand yesterday to prepare for their first summit with neighbours in the Association of South-east Asian Nations.

Starting today, Asean foreign ministers meet to discuss how to run the region in the post-cold war era and to maintain peace and stability in south-east Asia. Asean foreign and economic ministers will also prepare for the fifth Asean summit to be held on December 14 and 15. Asean leaders from Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam will also meet heads of government from Burma, Cambodia and Laos to discuss these countries' admission to Asean.

The signing of the South-east Asian Nuclear Weapons Free Zone Treaty will be the highlight of the summit. Other items on the agenda include ongoing negotiations about the Asean Free Trade Area (Atfa).

Although the nuclear weapons treaty,

The Asean Free Trade Area Council has been unable to agree to bring forward from 2003 to 2000 the deadline for all tariffs within the region to be reduced to between 0 and 5 per cent, writes Ted Bardacke in Bangkok.

"The private sector just finds it too difficult to adjust to that timeframe," said Mr Dato' Ajit Singh, Asean secretary general. But the Atfa council noted that, even under the original schedule, 81 per cent of all tariffs within Asean would be reduced to 0-5 per cent by 2000.

proposed nearly 20 years ago, prohibits participants from making, possessing or using nuclear weapons. It is largely symbolic. None of the signatories is on the verge of either acquiring or developing nuclear weapons. In fact, none of the countries even has a nuclear power plant, and only Indonesia has firms that have one. Yet symbolism is a hallmark of Asean and, with China and France testing

nuclear weapons before a test ban goes into effect next year, Asean wanted to make its voice heard internationally.

With Burma, Cambodia and Laos also planning to sign the treaty, it will be the first concrete recognition that, on a political front, Asean has already expanded to 10 members, if not in form then at least in content.

The treaty also gives some impetus back to Asean as an organisation dedicated to regional politics and security. Since 1992, when it announced its plans for Atfa, much multilateral energy has been devoted to economics and trade, with some officials complaining that Asean's original aim of preserving peace and neutrality in the region was being neglected.

Despite its name, the treaty will not make the region free from nuclear weapons. It allows individual countries to decide whether to allow vessels which might be carrying nuclear weapons to dock and land at their ports and airports. Questions still remain whether the

treaty will be effective, since none of the five declared nuclear powers - Britain, China, France, Russia and the US - has expressed willingness to sign a supplementary protocol.

In addition, several issues, including a quasi no-first-use declaration and questions about whether the weapons-free zone should extend to territorial waters (12km) or economic zone (200km), still need to be resolved.

Some have suggested these issues could be discussed at the Asian Regional Forum (ARF), a new Asean-led grouping which deals with security in the Asia-Pacific region and includes the acknowledged nuclear powers. But several officials say the treaty and ARF have no relation, with ARF tending towards consultation and study rather than recommendation and action.

Some Asean officials hope the EU as a group will agree to abide by the treaty during the Asian-EU summit to be held on March 1-2 in Bangkok.



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NEWS: UK

Labour party deplores purchase

Wisconsin Central buys royal train

By Charles Batchelor,
Transport Correspondent

US involvement in the running of the British rail network is set to increase following the acquisition over the weekend of Rail Express Systems, operator of the royal train and Royal Mail train services.

Wisconsin Central Transportation, which paid an estimated £20m (\$31m) to RES, is also bidding to take over all three of British Rail's Trainload Freight businesses, which move heavy loads such as coal, aggregates and steel.

Meanwhile, Omnitrax, another US railroad, has teamed up with the management of Loadhaul, one of the three BR Trainload Freight businesses, to bid for all three freight companies.

Management teams from the other Trainload Freight businesses, Mainline and Transrail, are also understood to be bidding to acquire all three companies.

Mr Brian Wilson, the opposition Labour party's chief transport spokesman, criticised the sale of RES to Wisconsin. But Mr John Welsby, ER chairman, said: "Wisconsin is a very experienced and well respected operator. That is very encouraging for the future of the business."

Wisconsin, based in Rosemont, Illinois, operates 2,800 miles of freight railroad lines in the US and acquired the newly privatised operations of New Zealand Rail in 1993.

Mr Tom Power, Wisconsin's financial director, said: "We have handled President Bush on our railway during election campaigns. If we can satisfy the secret service of the US government I don't see us having a problem in the UK."

Wisconsin's partners in operating RES are a US investment company, Berkshire Partners, and Foy, Richwhite and Company, which has investment and merchant banking interests.

Britain needs to invest an additional £2bn (\$3.1bn) a year in transport, though increased spending will not in itself be enough to tackle congestion.

The Confederation of British Industry says in a report today, Charles Batchelor writes.

The CBI's warning comes shortly after the government, as part of the Budget, slashed its 12-year road-building programme by a third. Sir George Young, transport secretary, contrasted the CBI's call for extra spending with its description of the Budget as "responsible". Transport spending had to be seen in the context of the government's overall economic strategy, he said.

The CBI calls for more investment in roads. But the balance of investment must change in favour of other types of transport such as rail, biking and shipping to help encourage a switch away from roads.

Omnitrax, which operates 12 short-haul freight lines in the US, has teamed up with Peter Kiewit Sons, a US construction group, to bid jointly with the management of Loadhaul for the heavy haul freight businesses. It has the financial backing of Montagu Private Equity, a UK development capital company.

In a separate development Mainline announced that it was diversifying into container haulage.

It has reached an agreement with Stena Line, the passenger and freight ferry company, to move containers from Harwich port in eastern England to a new rail terminal at Doncaster in the north.

Most container traffic between inland railheads and ports is currently handled by Freightliner, another BR subsidiary which the government has been attempting to sell for the past 18 months.

Pop 'dinosaur' discloses \$37m earnings

By Alice Rawsthorn in London

Phil Collins was Britain's best-paid rock star last year with disclosed earnings of more than £24m (\$37m), followed by Elton John, Eric Clapton, Sting and Annie Lennox.

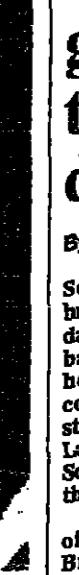
Music is one of the UK's most dynamic industries in terms of exports and domestic sales. Stars who break into the international music market are among the country's highest-earning individuals.

Media Research Publishing (MRP), a specialist research consultancy, estimates that Phil Collins's disclosed earnings doubled from £12.6m to £24.3m after renegotiation of his record contract in 1993. He thereby ousted Elton John from the highest-earning slot.

Elton John, who is not only one of the world's most successful recording artists but also makes substantial sums from touring, disclosed earnings of £12.7m, down from £17.7m in the previous year.

Eric Clapton's disclosed earnings also fell to just under £6m from £13.4m in 1993, when he clinched a new music publishing deal.

The success of Annie Lennox's *Diva*, her first solo



Top earners in one of Britain's most dynamic industries: from left, Phil Collins, Elton John and Eric Clapton.

album, made her Britain's best-paid female artist with a total of £5m, against £500,000 in the preceding year.

MRP bases its analysis on earnings disclosed in the UK. That excludes some of the most successful British-born artists such as the Rolling Stones, Rod Stewart and David Bowie, whose businesses are registered in other countries.

Last year's high earners, who included members of Pink Floyd and Queen, were almost all "dinosaur" rockers in their 40s and 50s whose careers started in the 1960s and 1970s. Even Annie Lennox, the youngest member of the top ten, is 40.

MRP suspects that a number of the much younger "Britpop" stars in bands such as Oasis, Blur and Radiohead will be among this year's highest earners. So will the teen acts, Take That and East 17, together with the singers Seal and Des'ree, who have both had hits in the US.

The wealthiest rock stars are those that write their own music. MRP estimates that some artists can make more money from music publishing

than they do from recording – particularly if their songs are covered by other artists.

The best paid member of the "Britpop" wave will probably be Noel Gallagher, the Oasis guitarist who writes its mate.

He will earn much more than his younger brother, Liam, the band's lead singer.

School of fame, Page 17

Banks 'warming to EU works councils'

By Richard Donkin,
Employment Staff

Talks have started between trade unions and the UK's biggest retail banks to establish European-style works councils. Union officials are optimistic that the agreement already negotiated with National Westminster Bank will soon lead to similar arrangements at all the largest banking and insurance employers.

Midland Bank officials are meeting officers of Bifu, the banking and finance union, today. Talks at Barclays Bank are said by the union to be advancing well.

Barclays, Lloyds Bank and Guardian Royal Exchange, the insurance company, have all started negotiations. British and European union officials the Sun Alliance insurance

group will meet in the New Year. A Europe-wide agreement, inclusive of the UK, with Sun Alliance may prove one of the toughest to negotiate.

Sun Alliance does not recognise unions for collective bargaining in the UK, although it has a staff association. Talks at Lloyds Bank are also thought unlikely to progress until after its merger with the TSB bank.

The works council talks are being engineered by the unions co-ordinating closely with the Trades Union Congress and European unions.

Companies are not obliged to have works councils in the UK because of the government's opt-out from the European Union social chapter. But employers with offshoots across Europe cannot avoid the EU works council.

UK NEWS DIGEST

Base rate cut is expected this week

Economists in the City of London expect Mr Kenneth Clarke, chancellor of the exchequer, to announce the first cut in UK base rates for nearly two years this week after discussing the move with Mr Eddie George, governor of the Bank of England (the UK central bank). Mr Clarke and Mr George will discuss interest rate policy on Wednesday, their first monetary policy meeting since last month's national Budget announcements by Mr Clarke. A majority of about two-to-one, City economists expect Mr Clarke to decide to cut rates even if this means defying the governor as he did in May.

The chancellor is under strong political pressure to push base rates down following the lukewarm reception which his package of tax and public spending cuts received last month. He is also expected to point out that economic growth has weakened since November, when the Bank said he was still not on course to hit his inflation target.

But Mr George warned last week that Mr Clarke's willingness to take risks with interest rates had already imposed costs on the economy, for example by weakening the pound. If Mr Clarke does demand a rate cut at Wednesday's meeting, analysts believe the Bank of England – which is responsible for the timing of the move – may wait to see whether the Bundesbank cuts German rates on Thursday before acting. Robert Chote, Economics Editor

Losing bidder for TV channel protests to EU

UKTV, one of the unsuccessful bidders for the licence for the new Channel 5 terrestrial television network, has complained to the European Commission that the Independent Television Commission ran a flawed bidding process for the licence. The UKTV consortium, put together by CanWest Global Communications, the broadcaster based in Canada, also complains that the winner, Channel 5 Broadcasting, will be able to distort the programme and advertising airtime markets in the UK.

The complaint was sent to Brussels last week before UKTV failed on Friday in its attempt in London to win a full court review of the ITC decision. The court ruled that the issues being complained of by UKTV would be addressed in the court review already granted for Virgin Television. Both bidders were excluded for the same reason – that they were judged to have failed a programme quality threshold. UKTV argues that the bidding process was flawed because Channel 5 Broadcasting was able to enhance its bid after applications were submitted.

UKTV is also complaining about two of the shareholders of CSB, MAI, the broadcasting and financial services group that controls both Meridian Television and Anglia Television; and Pearson, the media group that owns the Financial Times and two large production companies, Thames Television and Grundy, the company that makes popular dramas such

as *Neighbours*. The other CSB shareholders are CLT of Luxembourg, the broadcaster, and Warburg Pincus, the US investment bank. UKTV argues that there are conflicts of interest between MAI as a significant player in the UK commercial TV market, and Pearson, as a significant supplier of programmes to competing UK broadcasters, and their stakes in CSB. Raymond Snoddy, Consumer Industries Staff

Software expert's robot design wins award

A British software expert who has designed a robot capable of jobs ranging from microsurgery to cleaning up nuclear power stations is seeking £100,000 (\$154,000) to commercialise the system. Mr Joe Michael is one of three winners in a competition for European inventors organised by the government of Monaco, who has completed the design over the past three years. Mr Michael, who is 33 and works as a freelance programmer, said he was working on a machine which should be ready in the next three months.

This machine would be capable of "walking" or "crawling" under the control of a computer sending control signals to a total of about 1,000 motors. Ultimately, the system could be constructed large enough to have a hand in building bridges, or small enough, using tiny cubes and motors made out of glass, to be pushed



Award-winning robot designer Joe Michael

through the skin to conduct microsurgical operations. In the competition Mr Michael shared a prize of FF100,000 (\$20,500) with two other groups of inventors. One of the other groups was from Hutchinson, a division of the Total oil company of France, which produced a multi-layered glove for use by surgeons. The other winner was a team from Seurition of Switzerland which produced a new type of smoke detector. Peter Marsh, Monaco

Ship shortage: The government has been forced to charter 55 non-UK-flagged merchant vessels this year because of a fall in the number of British-registered ships to 288 from 1,143 in 1979, the opposition Labour party said. The party said it was "scandalous" that the merchant fleet had been allowed to decline to the point where "we are compelled to rely on ships from other countries to fulfil essential roles."

Flights diverted: Flights to London's two busiest airports, Heathrow and Gatwick, were being delayed last night because of freezing fog. Many were delayed by up to two hours and some were diverted to the smaller Stansted airport about 60km north-east of London. Others were sent more than 150km to Birmingham or 300km to Manchester.

Business Travel, Page 12; Weather, Page 20

Scotland's top bosses give voice to fears on devolution

By James Buxton in Edinburgh

Scottish businesses have broken cover in the past few days. After months of making background comments, the heads of some Scottish companies have publicly stated their opposition to the Labour party's plan to create a Scottish parliament if it wins the next general election.

Sir Alastair Rankin, chairman of Scottish & Newcastle, Britain's biggest brewer, explained his opposition in articles in Scottish newspapers. Lord Weir, chairman of the Weir Group, the engineering company, was among several other bosses sounding off. Last week Sir Bruce Patterson, governor of Bank of Scotland, told an audience that he personally had "no time whatsoever" for devolution.

An attempt on Thursday to force the Confederation of British Industry in Scotland to take an anti-devolution stance failed. But the assault on Labour's plans will delight Mr Michael Forsyth, chief Scottish minister in the Conservative government. He has urged business to speak out.

The Labour party has spent the past year explaining its plans to leading Scottish companies. Mr George Robertson, the party's shadow Scottish secretary, told them that, although a Scottish parliament would be able to "vary" the basic rate of income tax in Scotland by 3p in the pound, it would use the power only with "caution and prudence" and would not touch corporation tax.

He has also assured the financial community that there would be no change to the existing regulatory structure for financial institutions.

Sir Alastair said he believed the possibility of higher taxes would make it much more difficult for S&N to attract highly qualified executives to work at its head office in Edinburgh.

But the primary concern of both Sir Alastair and Lord Weir is the effect they believe a devolved parliament would have on the English and the way they treat Scotland.

"There is a great affection for things Scottish, particularly in England," Sir Alastair wrote. "Sensitivities can change very suddenly and goods labelled Scottish might take a back seat. This is because the business of becoming devolved will cause terrible upheavals and will be seen by the world outside as selfish and totally unnecessary."

Lord Weir says Labour's proposals do not address the question of why Scottish MPs should have a say in English legislation while English MPs would have none in Scottish. "It is hard to see why English MPs will continue to agree to the favourable financial treatment Scotland currently enjoys," Lord Weir says.

The top 25 companies surveyed by the Glasgow newspaper, *The Herald*, ranged from Standard Life via Scottish Power to John Menzies. Only two said they were content with Labour's proposals. Two were totally opposed, 12 said they had concerns, especially over taxation, three were non-committal and eight refused to comment.

Life assurance companies, in particular, which do 85 per cent of their business in England, feared English competitors would use the fact that Scotland had its own parliament against them.

Editorial Comment, Page 19

Wages of other employees in big companies increase more slowly

Median pay rise for executives is 7.1%

By William Lewis in London

Pay increases given to directors of the UK's top public companies last year were more than double those awarded to all other employees, says Incomes Data Services, the independent research body.

Total remuneration for 181 directors of the 250 top public companies whose financial year ended on March 31 1995 increased by a median 7.1 per cent, Incomes Data states today. This compares with an increase of 3 per cent in the median earnings of all employees during a similar period.

Incomes Data analysed the salaries, bonus payments, benefits and share options of 1,320 directors at 249 of the top 250 companies listed in the FT-SE 500 in January 1995. Annual

reports used for the research had financial year ends running from June 30 1994 to June 3 1995. The only company not included was Rothmans. Incomes Data says that is because there were no published annual accounts for the relevant period.

Because of this, the Incomes Data research does not include changes introduced by companies following publication of the Greenbury report on executive pay on July 17. Greenbury recommended that companies give shareholders more information and explanation about directors' pay.

However, Incomes Data states that "disclosure levels in the accounts have greatly improved, with at least half of the FT-SE 250 already complying with the Greenbury com-

mittee's code of practice". The report also states that "share options are far from dead", with twice as many FT-SE 250 companies having renewed their schemes as have abandoned them.

Incomes Data finds that 61 companies have a share option scheme and a long-term incentive scheme. Six companies, including BET, Whitbread and Lucas, said they had set up new long-term incentive schemes at the same time as renewing their share option schemes. Nearly £64m of notional profit was made by 225 directors from the exercise of share options during 1994 and 1995. Four directors made over £1m in a single exercise and two other directors gained over £1m by exercising several tranches.

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Joe Ali in 150

Japan risks contraception reform

A curious feature of Japanese Buddhist cemeteries highlights one difference between Japan and most other countries.

A corner of the average graveyard is reserved for a row of chubby child-sized stone figures. Some wear red bibs, others carry gaudy plastic windmills. Small toys lie at the feet of the most recent arrivals.

In big city-centre graveyards there are hundreds of these melancholy statues, known as *mizuko chizo*, or water babies. They are memorials to aborted foetuses, a consequence of the fact that Japanese women, deprived of the pill, have the highest abortion rate in the world - at the latest count 400,000 terminations per year.

Unbelievable as it may seem, Japan is the only country, apart from Stalinist North Korea, where the low-dose contraceptive pill remains illegal nearly three decades after its introduction in the US.

Japan recently took a small step towards changing this, the reasons for which reveal much about the country's slow transition to a more liberal and consumer-orientated society.

The first sign of reform came in September, when a health ministry panel con-

scluded the pill was safe and effective.

A dozen US, European and Japanese pharmaceutical companies, spotting a potential goldmine, promptly started to draw up marketing plans for the launch of a Japanese pill next summer. They estimate that pill sales could reach Y40bn within three

years. They were told, says a ministry official, that the decision on whether or not to approve the pill would be delayed to consider the fresh UK evidence, but final word could nevertheless be expected around next June.

Why have Japanese women been

denied the pill for so long? The reasons include male conservatism, consumer groups' lack of influence, and commercial self-interest.

The health ministry nearly allowed the pill in the mid-1980s, but approval was discreetly shelved due to fears of immorality. It began to review the pill again five years ago, but suspended licence applications at the last moment, in 1992, this time because of fears that less condom use might spread Aids.

Until recently, the ministry believed the evidence proved its stance was the correct one. Whether through bureaucrats' Con-

ditional wisdom, geography, or sexual custom, Aids and venereal diseases are less prevalent in Japan than in the west.

Another consequence of the ban, however, has been to nurture two powerful commercial interests against the pill - rubber companies and abortionists. Condoms represent 88 per cent of the contraception market for couples, according to the Japan Family Planning Association. Japanese condom producers are unwilling to lose what could be as much as half of their estimated Y70bn-plus retail market to the pill.

Japanese obstetricians and gynaecologists have also argued against reform, perhaps sensitive to the Y50bn per year they earn from performing abortions, or average Y130,000 a time.

But several factors have shifted things in the pill's favour in recent years. One is the medical evidence that there is only a negligible statistical link between the pill and the spread of Aids.

Another is social - that the ban on the pill has failed to curb natural promiscuity. Despite their third-class contraception, the Japanese aspire to first-class sex lives. A



recent Kyodo news agency survey showed that more than three-quarters of 17-to-18-year-old girls feel they have the right to sexual relations.

But what may have tipped the balance is an understanding between the health ministry, doctors' and pharmaceutical companies. According to one recent opinion poll, only 10 per cent of women would use the pill. But some industry analysts say that figure could double as married women opt for surer birth control.

At the very least, the pill would reduce the growth of the saddest corner of Japanese graveyards. At most, it could cheer up both sexes at a gloomy time in Japan's national fortunes.

FT GUIDE TO THE GLASS CEILING

What is the glass ceiling?

It's a term used to describe the invisible barrier which prevents women and (in the US) members of ethnic minorities from reaching the top in business and politics.

Why is it in the news?
Well, in Britain, Lady Howe, chief of Opportunity 2000, said recently: "Women really are beginning to break the glass ceiling."

And what is Opportunity 2000?
It is a campaign led by British business to increase the quality and quantity of women's employment opportunities in private and public sector organisations. Launched in 1991 with 61 members, the organisation now has 233 members, representing more than a quarter of the UK workforce.

Why was Lady Howe so chirpy?
Lady Howe (one should perhaps not refer to her as the wife of Sir Geoffrey, the Conservative politician) was introducing Opportunity 2000's fourth annual report. This shows that the percentage of women directors in member organisations has doubled in one year from 8 per cent to 16 per cent. Women now account for 32 per cent of all their managers, against 25 per cent last year.

Problem solved then?

No. Women comprise almost half the UK workforce, but figures for all employers show that only 11 per cent of managers are women and a mere 3 per cent are directors. Most British employees are in organisations which do not belong to Opportunity 2000 - and Lady Howe emphasised that there remains "much to do" in terms of encouraging the take-up of women-friendly policies even among members.

What is to be done?
Opportunity 2000 advocates flexible working arrangements and family-friendly initiatives to help working parents and others to balance better their lives at home and work. These include flexible hours, career breaks and training combined with childcare support.

What is happening outside the UK?

In spite of decades of progress in health and education around the world, women still face a "global glass ceiling", according to a UN report. It concludes that "in no society do women enjoy the same opportunities as men. In developing countries, less than a seventh of administrators and managers are women. Around the world, women occupy only 10 per cent of the parliamentary seats and 6 per cent of the cabinet positions.

Are there no successes to report?
The Nordic countries top a UN index that assesses countries' empowerment of women in government and business. In Finland, parents can choose between two alternatives: after a 12-month maternity leave, either parent can stay at home until the child is three, with monetary compensation and job guarantees. Or the community must arrange childcare for working parents. Sweden gives parents of children under

10 the right to shorten their workday by two hours. It also has separate taxation for part-time and full-time work to increase after-tax earnings for part-time workers.

And the US, home of feminism and affirmative action?

The Glass Ceiling Commission says that 95 to 97 per cent of the senior managers in Fortune 1000 industrial companies are men. 48 per cent of all journalists are women, but they hold only 6 per cent of top jobs. Lawyers? 23 per cent are women, but they account for only 11 per cent of law firm partners.

Robert Reich, President Clinton's Labor Secretary, says: "While minorities and women have made strides in the last 30 years and employers increasingly recognise the value of workforce diversity, the executive suite is still overwhelmingly a white man's world."

What's this Glass Ceiling Commission?

A 20-member, bipartisan body created by Congress as part of the 1991 Civil Rights Act. Elizabeth Hanford Dole, then President Bush's transportation secretary, initiated the first government studies, targeting federal contractors regulated by her department.

Doyle? That name rings a bell.

Yes: difficult to avoid describing as the wife of Senate Republican leader Robert Dole, who as majority leader pushed for the creation of the commission. Senator Dole, clear favourite to run as the main Republican challenger against President Clinton next autumn, has now joined leading congressional Republicans - as well as some Democratic lawmakers - in questioning whether the need for affirmative action in hiring and promotions has passed.

President Clinton has ordered a review of all federal affirmative action programmes.

Ah, the great white male backlash?

Indeed. The Glass Ceiling Commission report comes at a time when affirmative action programmes to increase minority hiring in the US are under increasing political attack - particularly from white males, who say companies are forced to hire women and minorities regardless of qualifications. The commission reflected that political concern in calling for the use of affirmative action to ensure that all qualified - underlined in the report - individuals have equal access and opportunity.

So what is the outlook?

The commission acknowledged that one factor was the corporate downsizing of the last decade, which has limited opportunities for all managers. Judy B. Rosener, a US academic, says: "Women cannot be expected to break the glass ceiling from below. Since men are the dominant group, they will have to remove the ceiling, and that will be difficult since for them it constitutes a floor - a feeling of security."

Andrew Bolger



Power lunch: only 11 per cent of managers are women

DATELINE

Tokyo: Unprecedented changes in birth control look likely, writes William Dawkins

cian wisdom, geography, or sexual custom. Aids and venereal diseases are less prevalent in Japan than in the west.

Another consequence of the ban, however, has been to nurture two powerful commercial interests against the pill - rubber companies and abortionists. Condoms represent 88 per cent of the contraception market for couples, according to the Japan Family Planning Association. Japanese condom producers are unwilling to lose what could be as much as half of their estimated Y70bn-plus retail market to the pill.

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Simmons gives black rap a voice

Alice Rawsthorn discovers an entertainment entrepreneur with plenty of ghetto glamour

When Def Jam Records released its first single - by James Todd Smith, a teenage rapper who had renamed himself Ladies Love Cool James, or L L Cool J for short - no-one in the music industry dreamt that James, or his label, would succeed.

A decade later L L Cool J has yet another top-five single. Def Jam has just celebrated its 10th anniversary and its first year as a subsidiary of the PolyGram entertainment group, and Russell Simmons, its chairman, is spinning new plans for the future.

"We had no vision of how Def Jam was going to develop," he says. "All we wanted was to work with a certain type of artist and because no-one else would put out their records we did it ourselves. Now I'm more focused. I know exactly what to do."

Simmons, 33, combines the rap uniform of a shaved head and hooded sweatshirt with the glossy sheen of a seriously successful businessman. He is one of a handful of young American blacks who have broken out of hip-hop culture to become influential figures in the mainstream entertainment industry.

Def Jam is one area of Rush Communications, Simmons' master company, which spans film and television production, a fashion label and an advertising agency. He and his "best friend", Andre Harrell, once his \$300-a-week personal assistant who recently signed a \$20m five-year deal with PolyGram to run Motown Records, are the first prominent black entertainment entrepreneurs since Berry Gordy founded Motown in the 1950s. However, unlike Gordy, who has been criticised in the black community for pandering to white taste, they made it on their own terms.

Berry Gordy sold black entertainment to white people," says Simmons. "The difference between him and me is that I sell black entertainment to people who are

in black culture. Some of them just happen to be white."

He never wanted to be a businessman. "It wasn't something I thought about. The only business men you saw where I grew up were drug dealers. They were the only people I knew who bought something for \$1 and sold it for \$2."

This may be a little disingenuous from someone born in Hollis, a middle-class black suburb of Queens, as well as Thailand.

"I've had this vision and ambition since I was a college kid," says Simmons, a third generation Thai of Chinese extraction who was educated in Taiwan and California, as well as Thailand.

His company is already one of the largest contract printers and trade publishers in Asia. He publishes a daily and weekly newspaper in Bangkok as well as Asia Inc, a glossy monthly business magazine in Hong Kong. In addition, Simmons has interests in satellite television and telecommunications, a spread that has earned him the sobriquet of Asia's Rupert Murdoch.

The budget for Asia Times

accumulate." At 43, Sondhi, who heads the Manager publishing group in Thailand, is about to test the limits of this apparent insouciance towards money. He says he is willing to put up to US\$60m of his own cash into Asia Times, a broadsheet which hit the streets of Hong Kong, Singapore and Bangkok last week.

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The 33-year-old Swede was

virtually unknown in Austrian financial circles and was hardly ever mentioned in the British business press. He put only Sch10m

of his own money into the nearly bankrupt firm. In addition, he demanded a Sch1.19m capital injection from the previous owner, the Austrian state-owned tobacco monopoly Austria Tabak, and Sch600m in debt forgiveness from the credit banks.

His flagship firm, Equity Partner, is registered on the Isle of Man, and the company that formally bought HTM had been acquired only a few weeks earlier.

But Eliasch had excellent

references and some very

important friends. He was

recommended by Warburg banker

Michael Treichl, a son of Austria's

best-known banking families, and

was supported by Maurice Saatchi

and the Rothschild family.

It took the quiet Scandinavian

more than two months to convince

the skeptics that he was real.

But he presented Rein Jaeggi, who

had turned around German

sportswear group Adidas in the

1980s, as manager and co-owner.

Nigel Andrews

bright, beautiful black kids cruising in convertibles.

Public Enemy voiced its view of the new Def Jam by burning the company flag at a recent concert. Simmons is unabashed. "We're giving people what they want. Black kids want glamour and good times. They want the American good life. I'd never want rap to become acceptable. But Senator [Bob] Dole [who recently criticised the violent lyrics of gangsta rap] saved us from that. He made us dangerous again.

Simmons now wants to expand his interests outside music. *The Addiction*, a film he produced for the cult director Abel Ferrara, has opened to rave reviews. Def Comedy Jam, his TV show, is in its fifth season. He has ambitions plans for Phat Fashions and for a Def Jam Cafe in New York. He also hopes to act as a consultant to mainstream advertisers hoping to reach the youth market.

He lives the ghetto-glamour lifestyle to the full with a bullet-proof Rolls-Royce, weekends in the Hamptons and nightclubs in the Manhattan restaurant in which he is an investor with Andre Harrell on one side, and a supermodel on the other. A favourite of Alain Levy, PolyGram's chairman, Simmons is now on the entertainment 'A' list of sought-after celebrities.

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MANAGEMENT

Whitehall's winds of change

Improving managerial efficiency in the public sector has been one of the government's main objectives since Michael Heseltine made it his mission as environment secretary in the early 1980s.

Ironically, in the early years, the "new public management" – as it has come to be known – was most pronounced not in Whitehall proper, but in state industries en route to privatisation. It then spread to the National Health Service and the semi-autonomous executive agencies established from 1988 under the "next steps" initiative.

Only in the mid-1990s has the full force of its influence been felt at the centre of Whitehall departments. The delay has served, if anything, to increase the radicalism of change across Whitehall. It is no longer a just a case of obliging mandarins to be more "managerial". The need for anything like the existing scale of departmental infrastructure is no longer accepted, and a large-scale "delayering" of the senior civil service is being carried forward at remarkable speed.

This radicalism is, in part, a consequence of the earlier move towards agencies. For

the creation of agencies begged questions about the essential purpose of the remaining central staff in Whitehall.

Two instruments are driving the reform process. Every department is undergoing a fundamental expenditure review of overheads in general, and also a senior management review focusing on the upper mandarin tier in particular.

The primary impetus for both reviews has been cost-cutting – an objective raised higher still by Kenneth Clarke's announcement in the Budget that Whitehall is expected to lay another 12 per cent off its running costs over the next three years. However, the government has not developed an entirely consistent method of restructuring. Some departments have largely accomplished their reviews in-house; others have relied heavily upon consultants.

These two articles examine the contrasting approaches. The first looks at the merger between the departments of education and employment, carried through with no significant input from consultants; the second examines the change programme at Customs and Excise, which relied heavily on outside advice.



Education in a new ethos

On the afternoon of July 6 this year, the 50,000 staff of the Departments of Education and Employment learnt, in literally a footnote to that day's cabinet reshuffle, that their departments were to be merged.

The permanent secretaries of the two departments – Sir Tim Lankester at education, Michael Bichard at employment – had advance warning. They were told in the morning.

The process of forming a merged department therefore started in deep shock. "There had to be time to grieve," says Bichard. But within a day or two the grief had turned to foreboding among the staff at what it meant for them.

For most of the 50,000 it meant little change. Some 40,000 of the support staff belong to the Employment Service, a quasi-autonomous agency. The service's chief executive remained in post, and the agency continued as if nothing had happened.

The same was true for most of the 4,000 staff in the Health and Safety Executive and Acas, the conciliation service. Although the two agencies were moved to new departments – environment and trade and industry respectively – they retained their institutional integrity and functions.

However, for the nearly 7,000 staff working for the central administration of the two merged departments, a revolution was in prospect. It was not an exclusively Whitehall affair: most of the support staff are based not in London, let alone Whitehall, but in Sheffield, Runcorn and Darlington.

Senior officials were the first and hardest hit. Even before the merger, senior management reviews were in train in both departments, identifying tiers of top mandarins to be "delayered". The merger increased anxiety at the likely scale of the cuts. Rightly so, since the outcome has been a reduction of senior posts from 145 to 95, which appears to be the largest percentage cut of any department as a result of this year's reviews.

"We were determined to get agreement quickly on structure so as to get the top people in post and reduce the uncertainty," says Bichard. He and Lankester deliberately eschewed the use of outside consultants, placing a premium on speed.

Not that they were adrift from private-sector experience. The two departmental reviews previously in progress had external advisers – Peter Davis, chief executive of the Prudential, advised the education department.

The restructuring of the department's senior management was carried through at almost breakneck speed. Although the review process started on the eve of the summer holidays, a management board structure for the combined department was in place within four weeks. Its members have all now been appointed.

Within 10 weeks – on September 27 – the management review document was published. The aim was threefold. First, to construct a new, streamlined senior management structure, while keeping the show on the road. Second, to put people into the new jobs. Third, to set out the new department's "mission", one embracing the best of both of its two inherited traditions.

Uncertainty reached the very top. Although Bichard and Lankester had been appointed joint permanent secretaries on the merger, and continued to advise ministers in their respective spheres, it was immediately clear that there would be room for only one chief.

"In a curious way it helped, because we could face the staff with them knowing that we were in the same position as them," says Bichard. "With both of us there, people knew that their interests would be taken into account."

Soon after the completion of the senior management review it became known that Bichard, who had only arrived at the administrative helm of the employment department nine weeks before the merger, was to assume the top job from January.

Richard, by contrast, only entered Whitehall in April. He is the first permanent secretary of a mainstream department to be recruited by an open competition. Most of his career has been spent in local government, until he moved to become first chief executive of the Social Security Benefits Agency in 1991. He is admired as a "can-do" manager, typifying the new Whitehall trend.

The transition appears amicable, with Lankester and Bichard briefing the FT jointly about the process of change. Discussing the culture of their erstwhile departments, Lankester stresses the policy formulation skills of the education officials, while Bichard highlights the employment department's "ability to deliver".

They praise both strands, but there can be little doubt that hard-edged managerial skills are first priority in Bichard's new empire.

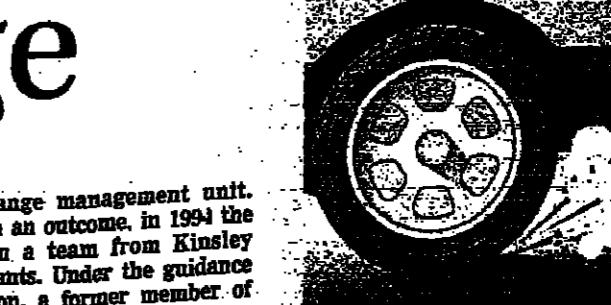
Andrew Adonis

Customs built approach

The glossy brochure headlined "management plan" looks routine by the standards of modern corporate re-engineering. Describing the difficulties faced by a £780m mature business with nearly 26,000 employees, the chairman's statement defends the need for "restructuring" and "delayering".

Then the company name, located just above the attractive crown and portcullis logo on the cover, catches the eye: the plan belongs to none other than HM Department of Customs, which is now coping with the massive cost cuts necessitated by the government's expenditure and management reviews over the past two years.

"We could have reacted in a standard Whitehall manner, looking at [the reviews] as a strictly financial problem, but the quality and quantity of what we produced would then have declined sharply," notes Michael Rickwood, head of the



EAST TRACK

Londis

Independent high-street food retailers struggling to survive against competition from supermarket chains and out-of-town grocery superstores are discovering a new weapon: "symbol" groups such as Londis.

Unusually for a 60-year-old group, Londis has almost tripled its turnover in the past eight years, from £50m to a projected £281m this year.

Londis is a holding company, whose shareholders are almost 1,400 independently owned shops ranging from village stores to high-street supermarkets and petrol forecourt shops.

Such symbol groups, whose members form an alliance to share expertise and get better buying terms, have been around for decades. But, partly through adopting the kind of centralised distribution systems and information technology used by larger retail groups, they are enjoying a resurgence in the 1990s.

IT systems that enabled large retailers to make vast efficiency improvements in the past decade – check-out scanning, electronic stock control and ordering – are becoming affordable to smaller groups.

Londis has been one of the fastest-growing UK symbol groups, attracting 400 retailers to transfer from other groups since the late 1980s. It hopes to grow by about 100 members a year.

Londis is retailer-driven, says chief executive Graham White. It was founded by retailers who wanted to own their source of wholesale supply, rather than by a wholesaler looking to be in retail outlets – as with some competitors. Londis retailers remain equal shareholders in the holding company.

Another incentive is the trading record of retailers which have joined White says.

Opportunities created by being part of a larger group means new members can typically reduce their delivered cost of goods by 2 per cent or more, and increase net profits by 28 per cent or more.

While members remain owner-managers of their stores, Londis operates in many ways like a large chain. It has shifted from a network of small warehouses to distribution from a small number of large regional distribution centres.

Members also gain from centralised buying, since Londis as a group can get better prices from suppliers than retailers could individually. It has a range of Londis own-label goods.

Retailers become part of a marketing "umbrella", which includes a common Londis logo and support from a 45-strong development team which

advises retailers on every aspect of business, from range selection and lay-out, to security.

Londis has set up an IT network similar to that of large multiples. Some 500 Londis outlets have bought the group's check-out scanning system, Londiscan. Participants are linked on a fast-track, head office facility which tracks stores' sales.

White says despite the loss of a certain measure of independence, joining a symbol group for an independent retailer is the "natural" defensive move.

He believes the restrictions being placed on out-of-town retail developments could provide an important opportunity for groups like this. "But those which will prosper are those which are well-organised and technologically driven."

Neil Buckley

A smile a day keeps stress away

Are you smiling? If not, you should start now. When you smile, happy chemicals flood your brain, you stop feeling so stressed and you are less likely to become ill or to have an accident. So says the British Safety Council, which has decreed this week Smile for Safety Week.

Yet the chances that I am smiling as you read this are so small as to be off the map. Today I move house. That makes it probably the most stressful day of my life. According to the experts, moving is third on the stress scale after death or divorce, and as yet I have not had a close brush with either.

Until a week ago I thought only wimps could find moving stressful. I could not see how putting a few things in boxes could be such a great problem.

But now that the day looms, I find that my hair is falling out, I have backache, am bad-tempered, anxious and depressed. I feel anger towards others, lose control regularly, and am exhausted. The fact

that there are a few stress symptoms which I am not yet showing – skin complaints, insomnia, loss of appetite, migraine and ulcers – is only a small consolation.

I have started to view our house as a large, inefficient corporation with room after room of surplus, unproductive belongings. It is crying for rationalisation. But as I sifted through the piles of things last week I realised that downsizing your personal effects is not easier than downsizing your company.

The real horror lies in finding new homes for the surplus. My cleaning lady doesn't want it, there is too much for the rubbish men to take away, and even the school jumble sale is less than enthusiastic.

However, the packing is the least of it. Still more stressful is dealing with the estate agents, solicitors, removal men, BT, British Gas, the electricity board, the insurance company, locksmith, plumber, handyman, carpet fitters and so on.

In my column last week I complained that the problem with the

LUCY KELLAWAY

economy was that there is too much competition. I have changed my mind: I now think there is too little. In the removal industry, in particular, there seems to be none at all. How can it be that one company can quote £500 and another £1,250 for shifting the same pieces of furniture? Moreover, all of them are so surly as to have alienated me before they have moved a single chair. British Gas, meanwhile, seems to have given up serving the customer altogether. "Read your own meter," the man said to me grumpily, when he finally got round to answering the phone.

Christmas makes it all so much worse. I can understand why the Post Office or turkey farms have a last-minute rush before Christmas, but why should plumbers and locksmiths suddenly be so busy? I expect it is because we are all trapped on the Christmas treadmill, and regard the happy festive day as an unmoveable deadline for getting those taps fixed that have been dripping for weeks.

Of course, if I were not so stressed I would not be taking it all so badly. What I need to do is smile, but I don't know how to wipe the scowl off my face. The British Safety Council seems to have anticipated this difficulty, and has sent

me a sheet of celebrities' favourite jokes to help. "Good morning, I'm the handyman," begins a chillingly relevant joke that Michael Aspel OBE finds amusing. "Can you change a lightbulb?" "No." "Unblock a sink?" "No." The joke goes on in this vein for some time, and then comes the punchline: "Then what makes you so handy?" "I only live around the corner!" Are you smiling now?

Some interesting light has been cast on another of life's upheavals: losing your job. Apparently this is not a stressful thing after all. According to a survey by consultants DEB, losing your job can make your marriage better. Initially I took this as evidence that work is putting such an intolerable strain on the family, that being fired is an improvement. But when I read that couples in the north think on balance that redundancy improves their relationships whereas couples in the south do

not, I was not sure what to make of it. Unless of course it proves that surveys are not worth the paper they are printed on.

My comments last week about loo rolls have gone down badly in Germany. I have received a letter from a reader in Grunwald, who would kill to be able to choose between quince, honeysuckle and supersoft lavender.

At his local Tengelmanns (Germany's equivalent of Sainsbury) he is told he is lucky to find any rolls at all. Last time he bought the final two on the shelf.

I also seem to have offended chief executives by talking about weak handshakes and boring office buildings. The head of Norwich Union asked one of his staff to call me last week to say that he has a firm handshake and that his building is not at all like other buildings as it is made out of Greek marble. So there you go.

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MEDIA FUTURES

Bonfire of the retail bankers

In Tom Wolfe's novel, *The Bonfire of the Vanities*, the investment banker who is the book's hero is asked by his daughter what his work is, exactly. As he casts around for an answer the little girl will understand, his cynical wife jumps in with a description as memorable as it is cruel.

Daddy's job, she says, is to cut up giant golden cakes and hand the slices round. As salary he receives the crumbs that fall between the slices. That description fits a different kind of banking more accurately: the old-fashioned business of retail banking. But, suddenly, thanks to the Internet, retail banking has become exciting again.

The reason is that retail banks in the industrial world have undergone half a revolution. Automated teller machines allow customers to draw cash and check balances outside working hours, and allow banks to replace some of their clerks with shiny hardware. Yet half of the revolution

is still to come: banks now have to replace that high-street hardware with software by getting customers to run their accounts directly from their PCs at home.

That makes banking quicker, more accurate and more convenient for the consumer and it cuts banks' costs still further.

Retail banks have so far made only shuffling steps towards this objective, in the US only one customer in 1,000 banks by PC. The proportion is lower everywhere else. Yet the American Banking Association expects online banking to be offered by more than 40 per cent of banks with assets of more than \$1bn (\$800m) by 1997, compared to the 11 per cent who offered it earlier this year. One prediction sees online banking as a \$3bn business by 2000.

Banks cannot turn these hopes into reality alone. For all their faults, the makers of software packages for office and home

computers are better than banks at designing interfaces that inexperienced customers will need to bank from their PCs.

Last spring, people would have tipped Microsoft as the company likely to emerge as leader. The Seattle-based software house controlled most of the world's desktop computers, thanks to its Windows system, had also made what seemed an unrefutable offer of \$2bn to the shareholders of Intuit, the leading maker of personal-finance software.

But the cup slipped before it reached Bill Gates's lip. Backed by most of the US Department of Justice made clear that it would oppose the acquisition. And after rattling his sabre, Gates gave up the idea.

He is now concentrating on raising Microsoft Money's 20 per cent market share. In one autumn promotion, Microsoft gave away 300,000 copies of the pro-

gram over the Net, and the company has been aggressively wooing banks to offer PC-based services using it.

Intuit has not sat licking its wounds. Earlier this autumn, it launched the Quicken Financial Network, a site on the World Wide Web with one of the most impressive blends of software, support, information and marketing on the Net.

In October, it signed with 21 banks to offer PC banking using private networks and the Quicken software by which its installed base of 8m Americans keep track of personal finances. Last month, it announced a deal with America On Line to provide the service's 3m customers with online banking in the first half of 1996.

And computer shops are now stocking a new 1996 version of Quicken which includes a wonderful twist. Customers who use the package can get near-instant access to the Quicken Financial Network

via the Internet; even if they do not have an Internet account. By simply clicking a button, 90 per cent of Americans can be connected via their PC's modem to a local access number operated by an Internet provider, giving unlimited free online access to Quicken materials on the Net.

By the agreement, users get a customised Netscape browser - the Navigator Intuit Edition. Netscape and Concentric, the Internet company providing the telecoms infrastructure, will benefit if customers choose to pay extra for access to the full Internet. As more than 90 per cent of owners of the latest Quicken product have modems but only 3 per cent have Internet access, that deal makes sense for all.

Last week, the company announced its plans to launch full banking over the Internet during the second half of next year, giving the banks which sign up the choice of how to brand, to price and to

market the service.

It is easy to see why banks should be suspicious. The number of banking transactions is unlikely to rise, so online banking will force banks to shrink their existing infrastructure and share their margins with leaner and better-managed firms like Intuit. That may explain why the company has no banking partners in the UK.

Yet the momentum behind online banking is considerable. Starting in the US, banks will be tempted into partnerships with Intuit merely because they know their competitors will join up, too.

These developments make a strong company stronger. They offer Scott Cook, the company's chairman, the chance to be a Sherman McCoy - to pick up golden crumbs in the form of a commission for Intuit on every banking transaction that takes place. And they give Bill Gates a reason to look wistfully at the deal he was unable to complete earlier this year. No wonder Intuit's share price has risen from \$45 to \$85 since October.

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Embryo university or anorak academy?

Martin Mulligan pays a visit to a visionary in Bath

A spectre is haunting the campus - the spectre of electronic education. Central China's Television University already relays lectures to 2m Chinese students across the nation. A Colorado-based cable television network dedicated to remote tuition - Mind Extension University - began transmitting last spring to Taiwan and Thailand. And Jewish boys in isolated communities worldwide have since June been able to take their Bar Mitzvah lessons over the Internet.

Something significant is happening. But what? Englishman Keith Hudson, who wrote *Introducing CAL - A Practical Guide to Writing Computer-assisted Learning Programs* and is at work on another book, *Recreating The Social Economy*, believes he has a better idea than most.

Hudson is a former industrial chemist who worked for Massey Ferguson for 20 years, and is the founder of a training organisation for unemployed youngsters in Coventry. He also runs a small architectural practice from his home.

He resembles a white-haired Abraham Lincoln, an impression reinforced by his love of debate and intense conversation between pipes. His study in the cheerfully cluttered warren of an idiosyncratic three-storey Georgian house in Bath, in western England, is littered with texts of all descriptions - philosophy, physiology, physics and music.

The study is the building's former ice room, designed in 1816 when the house was built. Hudson says that 1816 was known as the year without a summer. Tambora, a volcano in the South Seas, erupted that year and caused a global darkening. "One or two cubic miles of mountainside went up in the air. The effect on sunshine and crops must have been tremendous," he says, beaming.

His own Internet project may have a comparable effect on traditional university teaching. What Hudson has done, with the unpaid assistance of nearly 30 academics

worldwide, is to construct a shell or template for the first Internet university, called Interskills, which declares itself to be "a university of future skills".

Just now the shell contains about 200 articles or "intellectual sound-bites" from various thinkers and polemicists. Its practical content is zero. But Hudson is sanguine: "We wouldn't expect anything of a practical nature for two or three years."

The Interskills manifesto is still more audacious - even quietly arra-

ning. "Interskills," it says, "is not intending to compete with orthodox schools and universities. By and large, the latter concern the technologies and skills of the agricultural and industrial revolutions and are well placed to service the existing formal economy. Interskills is much more concerned with the skills that will be required in the new communications era that is rapidly taking shape around us."

Is Hudson saying that universities and schools as we know them have been superseded, and that even the economic structures they serve are living on borrowed time? He is.

"It's all going to take 20 or 30 years, but the Internet is going forward with the speed of an express train. Once the ITTs and Microsofts and BTs get into this, the universities will really have to work [to survive]. I can't see them in any-

thing like their present form in 20 years."

What are the implications for society of the Net and projects like Interskills? "The effect in the long run will be to recreate the local social economy - which can absorb the jobless. New local communities will emerge."

Hudson cites the example of local exchange and trading schemes, known as Lets groups, which originated in Britain and are now found worldwide. Their founder, Michael Linton, is now active in British Columbia. Groups typically consist of one computer-skilled organiser and several unemployed semi-skilled people. These individuals form a skill-swapping micro-society. Instead of charging for their work, they do jobs for each other and keep a tally of skill credits and debits.

"Lets are a new way forward, but there are problems," says Hudson. "There are about 300 [in Britain]. But the problem with Lets is one of low activity rates. The unemployed on average put only 10 per cent of their time into it." As a result, some people accumulate more credits than they can spend. "And the founders of Lets don't want to be seen to be encouraging a black economy. On average, Lets schemes last about six months. They need to be integrated with the Internet. Just now, the computer is only a book-keeping device for Lets."

Hudson sees the Internet epoch as leading, ironically, to a return to the European economic model of the early middle ages. "What started to happen in the middle ages was that people - particularly doctors and lawyers - started to monetise. The process has been accelerating ever since."

Monetise? Yes, the various professions - priesthoods, doctors, lawyers - began to mystify and restrict their professions, and to ask for money, for coin of the realm and not to swap services as they used to. The industrial revolution accelerated that. Then the government got into the act in the same way that all the professions have. Now

there's a ratchet effect, as each recession puts more people out of work. Lets and other schemes like it are the beginning of a way to find our way back."

Hudson's embryonic Internet university aligns itself with this trend. It divides into two classes: global and local. Examples of global skills might be how to compose a Web page in HTML language, or mastering the principles of computer-assisted learning. Local skills, on the other hand, could be basic trades such as plumbing, or growing organic vegetables, or even alternative methods of generating electricity.

It sounds like a dizzying vista of social transformation. But some would say that Hudson's Utopia is fatally flawed. For decade, there has been talk of computers putting academics out of business, just as it

has been claimed computers were about to usher in mass telecommuting and the paperless office. So why should anyone take Hudson's predictions seriously?

His reply is that the new technology is a Juggernaut that cannot be stopped. "The Internet is growing quickly and getting cheaper... PCs are becoming cheaper and doubling in power every year. Data transfer is faster."

And then there is money. "Once e-money arrives, the Internet will be essential to the world of the future. As an artefact, the Internet is just about optional right now. But within two years of e-money, it would be like trying to scrap the car. We are increasingly dependent on it." Interskills, in short, anticipates a world in which the Net is all-pervasive.

A wit has compared the Net to a mountain of books heaped in the centre of a room as big as the globe.

How can that masquerade as a revolution in teaching? "The crying need just now on the Internet is for indexes," says Hudson. "Yes, now it's a mess, but that pile of books will be arranged very neatly on shelves within five years."

Hudson is keen to distinguish between computer-assisted learning (CAL) and "edutainment" - mostly available on CD-ROM - which offers instant gratification: breadth without depth. Learning by computer seems to be *too much fun* for the learning to stick.

As a former CAL program writer, Hudson impatiently distinguishes CAL from education. "CAL is hard work. One lesson of the early Data of CAL in the mid-1980s and early 1970s was that only the highly motivated, better-quality students made progress. CAL is still hard work... you can only learn by practising the skill involved. Contrast the CD-Roms of Microsoft

and Dorling Kindersley. They can not go much further."

Some disciplines, he says, are more at risk than others. For example, maths and all the sciences can be taught very readily by CAL. It is not so obvious that the humanities can. Hudson believes that the Net spells the end of a teaching tradition stretching back to Athens in the fifth century BC.

The humanities are very threatened. That is a shame, because we need good scholarship in philosophy, history and even sociology. But I see these departments as much smaller - as long as vacuum cleaner departments [enrolling] the least promising students - in the future."

Listening to Hudson, it is difficult not to be charmed by his computer evangelism. But bright students will not be leaping through the looking glass just yet.

The Interskills home page is at <http://www.on-the-net.com/interskills>



Utopia's architect: Keith Hudson sees the Internet epoch resulting in a return to the European economic model of the middle ages

David Howells

Shopping around Future shock grips Paris

By Emma Tucker in Brussels

Some marketing and media experts flinch warily from grandiose claims about electronic shopping. Yet progress is being made in unexpected ways.

For example, British Airways passengers relaxing at 36,000 ft will soon be able to buy items from top stores and then have them delivered to their destinations or homes.

BA is to hold trials of a new multi-channel entertainment system which will include video shopping.

Travellers watching a screen in the seat-back or arm-rest will be able to order and pay for goods simply by swiping cash or credit cards through a handset.

BA's *Shop the World* channel

will feature goods from top London stores, as public sector unions act in defence of old-fashioned economic principles.

In Stockholm, the Swedish capital, executives, officials, and public authorities were meanwhile exchanging forward-looking ideas about Europe's information revolution.

They wanted to show that there is more to be gained by embracing the information society than by retreating from it. Most of the 50 projects represented were local in character, promoting activities in cities and regions by adapting information technology services to local requirements. The Eudis project, promoted by Brescia, Hanover, Lille, Stockholm and Thessaloniki - provides city kiosks at which people may look up useful information.

Such projects rely on liberalisation of telecommunications, competition within public services, and lowering barriers to free movement of services and information.

Resistance to change, says Martin Bangemann, European Commissioner for information technology, stems from the fact

that Europe lacks America's "can do" mentality.

Helmut Schmidt von Sydow, a member of his cabinet, emphasised that the Commission's message is threefold. First, the information society will create jobs and free us from boring or dangerous ones. Second, it will not usher in a "sterile" society. "Citizens everywhere will have access to information, current events, museums, galleries, and libraries," von Sydow said.

Third, it need not mean loss of cultural identity: national and regional culture will not be submerged in a Hollywood dream factory nor be swamped by the English language. It creates instead "the opportunity for local culture and language to flourish."

Such messages are unlikely to impress pro-testing public sector unions. But while citizens may be able to throw out governments that chip away at their privileges, there is little they can do to stop technology, and with it social change, evolving. Telecoms liberalisation and the single market are only two elements of collective European policy that have rendered that a near impossibility.

Free trials for its new searchable Britannica Online service for a home user is \$150 plus \$26 registration - while the site also features a nice "Born on This Day" biographical feature.

• China Web (www.comnet.com) is a well laid-out, easily navigable site providing data, Shanghai city information, stock prices, travel arrangements and a searchable directory of key figures in commerce, industry and government. Very smart.

• Rosalind Remick's Interactive Publishing Alert Directory of Online Publications 1995 is now available, ranking the top five electronic publications of the year and reviewing lots of others. Excerpts and details are at www.net-creations.com/ipl/center

• Encyclopedia Britannica (www.eb.com) is offering details of subscriptions and

By Victoria Griffith in Boston

No one with e-mail should be surprised to find a new type of holiday greeting waiting when they log on. At least two online services - America On Line and Prodigy - have launched electronic Christmas and Hanukkah cards.

The America On Line version allows users to customise their cards with digital photographs of themselves. The pictures are framed within a coloured design with "Happy Holidays" or "Merry Christmas" scrawled at the top.

Prodigy has taken a more traditional approach. With American Greetings as the content provider, Prodigy's cards feature tick-tocking clocks and balloons are available.

This is a great way to say Merry Christmas and Happy New Year to pals you've made online," claims Beth Cardarelli, marketing manager for electronic commerce on Prod-

iggy. This year, Prodigy users can send greetings only to other Prodigy subscribers, though Cardarelli says the company will flash e-mail through the Internet next year.

However, America On Line's cards can be sent through the Net. The cards are free, though users pay for the online time they use to choose and send their greetings.

Electronic Christmas cards offer little threat to steamy greeting card companies just now, not to retailers or the postal service. Both Cardarelli and Prodigy expect less than 100,000 to be sent this season. But the prospect is that many new-ageers may dispense with paper versions altogether.

"As America On Line says in one of its promotional quips: 'You don't even need a stamp.'

the Concentric Network (www.concentric.net), or you can vote for the "Coolest Toy of 1995" through their site (www.concentric.net/santa). Home Page for the Holidays (www.merry-christmas.com) is in a similar vein, but with nice graphics. Sponsored by Toys R Us, it has a colouring book feature and seasonal movie reviews. Ho! Ho! Ho!

Stephen McGrookin steve@mcgook.demon.co.uk. Cybersightings will return in the New Year

Prodigy Times on the World Wide Web www.it.com or www.usa.it.com. Updated daily.

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NetHold goes digital.

NetHold, the international Pay TV group, is first to go digital in Europe and Africa.

First in Europe. In November this year Telepiù* launched its initial digital platform on the Eutelsat 11F1 satellite. The distribution of the Telepiù bouquet will continue on Eutelsat's Hot Bird 11 in the autumn of 1996. NetHold will follow this with the launch of its

digital platforms in the Benelux and in Scandinavia soon on Astra.

First in Africa. In October this year Multichoice** launched its digital bouquet of 16 channels to Southern Africa on the PARS-4 satellite.

NetHold has delivered on its

promises to go digital on satellite, on air and on time.

The NetHold digital network is up and running. NetHold now operates in countries in Europe, the Middle East and Africa, and serves over 2.5 million premium subscribers.

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CHARITY FUND INVESTMENT

In the shadow of the lottery

UK charities are having to be more innovative and efficient in their search for income, writes Mark Suzman

In the four centuries since the basic legal concepts of charity were first instituted in Britain the sector has rarely had such an eventful year. Not only are charities being forced to grapple with a series of long overdue changes in their organisation, management, accounting methods and investment strategies, but the advent of the National Lottery has brought with it a set of challenges and opportunities with which the sector is still struggling to come to terms.

Rarely, if ever, has a £13bn industry seen a start-up company become market leader in the space of a year. But that is exactly what has happened with the National Lottery Charities Board, which is well on its way to becoming the largest single charitable donor in the UK, budgeting on having around £250m to distribute every year.

As would be the case for any sector of the economy forced to confront such a powerful new entrant, that growth has come at a price: fewer customers for competitors. Even before the lottery began, charities were complaining that international experience showed that donations would suffer because people would regard the lottery as an alternative to charitable giving rather than a supplement. Since its inception the complaints have followed thick and fast - and not just over lost revenue.

The NLCB has been criticised for being too slow and cumbersome in giving grants and for ignoring worthy established charities, particularly in the medical field, while being overgenerous to small ones. With over 180,000 registered charities in the country, and more than 15,000 individual applications for grants already

received by the NLCB, the problems become self-evident.

And while there certainly have been some losers as a result of the lottery, early indications are that this has been largely restricted to those charities which are particularly dependent on street donations. However the situation is far from clear-cut and several big charities, ranging from Oxfam to the Red Cross, have had record years.

A full picture will not be available until after the completion of a government-sponsored study into the long-term effects of the lottery, but some preliminary evidence will become available in April and May of next year when most charities announce their financial results.

Adding to charities' woes, despite heavy lobbying, in last month's budget the Chancellor once again declined to grant them any relief over unrecovable VAT on non-business activities, estimated by the Charities Tax Reform group to cost them £350m a year.

Even worse, last month's cut in income tax will hurt the revenue of charities that operate net covenant schemes. These allow charities to reclaim from the Treasury some of the tax already paid by donors on their earnings. This means that annual reclaim of covenants will have fallen from 33.3 per cent to 31.5 per cent of the net sum given, causing substantial losses for many larger charities.

Exacerbating the problem, there has also been a fall in the number of legacies received, traditionally a large source of charitable income, as well as a slight drop in corporate giving. No-one is quite sure of the reason behind the falls, though a possi-



ble explanation for lower corporate giving is a diversion of corporate resources to inhouse community involvement schemes. Whatever the case, they have forced a radical rethink in methods of fundraising. With all these pressures act-

ing on it, the sector has been forced to try to increase efficiency and innovation. This has been most apparent in fundraising, where charities are increasingly seeking new methods to garner income.

Several of the big banks, for

example, now issue affinity cards which allow customers to make a small donation to charity with each use, while Give as You Earn payroll schemes, which allow money to be taken directly off individual wages and sent to a designated charity, are gaining currency.

Other new schemes include a recently launched card from the Charities Aid Foundation, which works to increase resources available to charity. It can be used to channel charitable donations through the

More importantly, the tight strictures determining how a charity should invest its assets have been relaxed. Under the Trustee Investments Act of 1981, charities were required to keep 50 per cent of total assets in government bonds, thus forcing them to lose out on the long boom in equities.

Now, this has been adjusted to allow charities to put up to 75 per cent of their income into equities if they wish, and the Treasury has announced a fundamental review of the Act which may lead to its demise next year.

In the meantime, investment has continued to grow, particularly within Common Investment Funds, unit trusts specially designed for the charity sector. These provide an avenue to equity investment which combines relatively low management costs with tax-exempt gross earnings.

Nevertheless, the Charity Commission is still reluctant to jettison all controls, particularly in the wake of the damage caused to the Baring Foundation, one of the largest charitable donors in Britain, following the collapse of Baring's Bank earlier this year.

But while it may be moving slowly, it is clear that the restructuring of the charity sector is still far from over and much thought is going into how it should operate, and be regulated, in the future. Earlier this year, Demos, the think tank, published an influential study calling for a complete revision of the definition of charities and their replacement by a set of legal principles.

The National Council for Voluntary Organisations has now set up a commission to look at these issues and various other anomalies and problems with the existing system. It is currently taking evidence from a wide variety of sources and is expected to report its findings early next year.

But even if such far-reaching recommendations find little immediate favour, assimilating the changes of the past few years and coping with an increasingly competitive atmosphere are likely to prove more than enough to keep charities and their fund managers, fully occupied for the foreseeable future.

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II CHARITY FUND INVESTMENT

The future of charities

Call for new legal framework

Demos, the independent think tank, recommends a wide range of changes to charities

In the year just when many charities were celebrating the tenth anniversary of Live Aid, the phenomenally successful fundraising exercise to raise money for the Ethiopian famine, a controversial new report into the state of modern charity was released.

Published by Demos, the independent think tank following an intensive 18-month investigation, the report argued that voluntary organisations had developed impressively over the past decade and were expanding their involvement in a wide range of areas.

However, it warned they were being unnecessarily held back by an outdated legal and fiscal framework.

"We first decided to look at the state of charities because we were intrigued that, despite all the innovation and change taking place, overall funding in the sector as a whole was stagnant, and we wanted to discover why," says Geoff Mulgan, Demos director and one of the authors of the report.

"In the first part of the decade, many of the charities seemed terribly complacent. We feared that, given their higher public profile, they would soon start running into problems of greater public scrutiny and accountability. That has now started to happen, and charities are having to think hard about their future."

The final report recommended a wide range of major changes to the sector. These included:

■ The revamping of the existing definition of charities (which currently covers a wide range of organisations - from private schools to the Church, but does not include campaigning organisations such as Greenpeace or Amnesty International).

The report recommends that the current system should be replaced by a simplified set of core legal principles from which organisations could choose.

This would, for example, allow some board members to receive payment for their services or permit innovative

social entrepreneurs to operate without a board of trustees.

■ The establishment of new models of public funding for charities and the implementation of new benchmarks for evaluating the success or failure of charitable activities:

■ The allocation of tax benefits to activities broadly defined as "public goods" rather than, as at present, merely recognising a specific form of organisation;

■ The formation of new institutions, including a charity bank, and support for charitable investments, loans, bonds and guarantees which would improve charities' fund-raising ability and provide new outlets for charitable donations;

■ The removal of all remaining restrictions on free speech on charities (which are

currently not permitted to campaign openly on political issues);

■ The widening and formalisation of government links with charities. This would include a broad range of new contacts and include the allocation of a fixed proportion of risk funding for the charitable sector (the report recommends 0.5 per cent of total public funding) to encourage experiment and innovation.

Demos insists that implementing these moves would bring about wide-ranging changes not only within charities themselves but in public attitudes towards and involvement in voluntary work. "In part, the need to change is a recognition of the fact that charity in the traditional sense is now becoming mature," notes Mr Mulgan.

"The report is not a complete solution but we do hope it will generate debate," he adds.

That much, at least, is already happening.

Mark Suzman

The National Lottery: by Mark Suzman

Some donations may be lost for ever

Spending that used to go directly to charities may have shifted permanently

Love it or hate it, in its one year of life the National Lottery has already become an integral part of British life. The problem for charities is that, however hard the government emphasises the lottery's new role as the largest charitable donor in the country, most are convinced that it has wreaked serious damage on their fundraising and, by extension, their programmes.

So who is right? All sides agree that it is too early to pronounce definitively, but preliminary evidence does seem to corroborate the charitable contention that the overall impact of the lottery has been detrimental to their financial health.

According to a series of NOP surveys carried out on behalf of the National Council for Voluntary Organisations, there has been a 10 per cent drop in the proportion of people reporting a donation to charity since the lottery started. The NCVO warns that there could be longer-term damage, with people permanently shifting some spending that used to go directly to charities to the lottery.

On this basis, the NCVO calculates that the loss to charities will be in the region of £32m on the year. By contrast, the amount of money raised for distribution by the National Lottery Charities Board, the body charged with spending the £50m in every lottery pound destined for charity, has this year only been £26.5m - leading to a net loss of £9.5m for the sector. On the basis of these calculations, most people involved in charities share the view of Stephen Lee, director of the Institute of Charity

current not permitted to campaign openly on political issues;

■ The widening and formalisation of government links with charities. This would include a broad range of new contacts and include the allocation of a fixed proportion of risk funding for the charitable sector (the report recommends 0.5 per cent of total public funding) to encourage experiment and innovation.

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"The report is not a complete solution but we do hope it will generate debate," he adds.

That much, at least, is already happening.

Mark Suzman

Fund management: by Mark Suzman

Curbs on investments may be further eased

The Treasury has decided to undertake a 'fundamental review' of the Act

Balancing the potential risks and rewards of an investment is a tricky prospect for anyone,

but for charities it is particularly challenging. As with other investors, charity trustees are required to protect assets against inflation and generate income for spending. But while they seek to maximise return, the potential damage caused by a failed investment has wider repercussions than for

ordinary investors. It was to guard against such a possibility that the Trustee Investments Act of 1961 - which compelled charities to divide their investments equally between wider-range investments, such as equities, and narrow-range investments that are regarded as much lower-risk predominantly gilt - was first instituted.

From the time of its inception, however, this restriction has raised the ire of charity directors and fund managers alike. Equities have so outperformed gilts since the act was introduced that a £2m investment in the stock market then would have increased sevenfold, while a similar purchase of bonds would have yielded just £700,000. Overall, it is estimated that the restrictions cost the sector as a whole £200m in capital growth every year.

In April, the rules were relaxed, permitting charities to invest 75 per cent of new income in equities and allowing them to consider investments outside the UK for the first time (although these investments are still restricted to stock in the European Union).

While welcoming the development, however, a large lobby group, comprising the Deregulation Task Force, the National Council for Voluntary Organisations and the Association of Charitable Foundations, continued to criticise the regulations as outdated. In response, last month the Treasury announced that it had decided to undertake a "fundamental review" of the Act.

Although a consultation document is not expected to be released until next May, the move has already been widely welcomed. "The picture of investments now looks brighter, and once reforms are

in place, trusts will be better able to ensure the long-term health of their funds," observes Stuart Etherington, chief executive of the NCVO.

But larger charities have long been able to apply to the Charity Commissioners, the chief regulating authority for the sector, for special exemption from the Act. Even among those who have not, most have well over three-quarters of their total assets in the stock market already, due merely to the over-performance of equities within portfolios. "Many charities have moved beyond the act anyway and addressed the equity imbalance in their portfolios long ago," notes Richard Fitzgerald Howard, a director of Flemings Investment Management.

Perhaps more significantly, common investment funds (CIFs) are not restricted at all in the range of their investments. These are in effect unit trusts for smaller charities (most managers suggest that it is probably not financially worthwhile for charities with assets of less than £1m to seek individual fund management).

They offer lower than normal administrative fees and enable charities to spread their portfolio across a wide range of investments. They also distribute all income gross, saving charities from having to reclaim any tax in respect of their holding.

As such, they have proved highly popular, with the amount of funds under management rising from just £55m at the end of 1991 to over £25bn this year. And with the Official Custodian of the Charity Commissioners still divesting itself of the management of the last tranches of £1.5bn of assets it was required to hand back to charities following new legislation in 1992, that amount

is certain to keep growing in the short term at least.

Reflecting this, the number and range of CIFs have been growing rapidly. In Scotland, where regulations differ slightly, Stewart Ivory now offers dedicated Pacific and Japan funds for charities. Similarly, in May Kishenwurt Benson launched the Charisguard Overseas Equity CIF, the first fund in England dedicated exclusively to overseas investment.

"We've already raised £15m so we're very pleased with our performance so far," observes Hilary Wild, managing director of Kishenwurt Benson Charities.

But while CIFs are where a lot of recent developments in

The restrictions cost the sector as a whole £200m in capital growth every year

charitable investment have been taking place, they still represent just a fraction of the sector. Estimates of the size of charitable money under investment vary, but one recent analysis suggests that the total could be as high as £20bn - that is still dwarfed by the £245bn invested in pension funds, but it represents a significant sum.

Reflecting this, charity trustees and managers have become much more involved with and concerned about the details of their investments.

According to Andrew Hind, a former director of finance at Barnardos and author of a new book on the subject of charity governance and management*, greater trustee responsibilities, spurred on by legislative changes and recent alterations

of the voluntary sector.

For its part, the government has been put unexpectedly on the defensive by the whole debate, receiving criticism rather than the anticipated public relations coup. Virginia Bottomley, national heritage secretary, went so far as to criticise charities for over-complaining, accusing them of "whingeing" when some had in fact done "very well".

The Home Office, however, is following a more cautious line. A report on the NCVO's activities by the Association of Chief Executives of National Voluntary Organisations noted that, "given the size of the operations and the short timescale, it is a significant achievement" and, diplomatically, pronounced itself "delighted" that the Charities Board had listened to the views

of the voluntary sector.

Pending the results of this investigation, the debate is likely to quieten down for a little while, although it will inevitably re-emerge each time the board makes a grants announcement. Mr Stuart Etherington, chief executive of the NCVO, has already suggested that, given the huge number of applications and a widespread public belief that more lottery money goes to charity than is in fact the case, the allocation of lottery proceeds should be restructured to boost the share for charities.

But, as Mr David Rigg, communications director at Camelot, the lottery operator, notes: "When people buy a lottery ticket, they do so because they want to become millionaires, not because they want to help good deeds."

It is this fact that has institutionalised the lottery in the public mind and guaranteed its future. And it is a point already acknowledged within the sector: "We need to tell people buying a lottery ticket is not the best way to help charity," notes Mr Etherington.

Mark Suzman

CHARIFUND
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Charity	Year end	This year	Last year	INVESTMENT INCOME		Growth: total inc.	EXPENDITURE: (This year)	TOTAL FUNDS: This year	Last year
				3 year average	As % of total income				
Wellcome Trust	Sep 94	£1249.4m	£1088m	40%	41%	100%	100%	-44%	104%
Church Commissioners for England	Dec 94	£161m	£168m	-1%	1%	63%	64%	22%	103%
National Trust	Feb 95	£220.2m	£215.5m	6%	4%	15%	17%	-9%	100%
Leatherhead Trust	Oct 94	£12.8m	£14.1m	11%	11%	100%	100%	-8%	73%
Galaxy Charitable Foundation	Apr 94	£5.155m	£5.8m	27%	42%	5%	5%	10%	72%
Smith's (Henry) (Kensington Estate)	Dec 94	£6.14m	£7.2m	7%	7%	100%	100%	2%	108%
Tudor Trust	Mar 95	£7.123m	£7.43m	-16%	16%	100%	100%	-6%	141%
Weston (Garfield) Foundation	Apr 94	£11.9m	£11.9m	3%	3%	100%	100%	-1%	57%
Fairbairn (Esme) Charitable Trust	Dec 94	£9.10.2m	£7.92m	14%	14%	100%	100%	-2%	77%
Christ's Hospital	Jul 94	£10.47m	£8.58m	4%	8%	65%	70%	0%	64%
Rowntree (Joseph) Foundation	Dec 94	£11.78.0m	£12.64m	-6%	5%	29%	32%	15%	102%
City Parochial Foundation	Dec 94	£12.27.30m	£7.85m	-5%	-5%	88%	88%	-33%	111%
Shetland Islands Council Trust	Mar 94	£13.27.27m	£8.01m	-11%	-8%	70%	70%	52%	241%
Peabody Trust	Mar 95	£14.21.33m	£6.82m	24%	18%	15%	13%	10%	107%
Rhodes Trust	Jun 92	£15.51.22m	£5.41m	-1%	-1%	100%	100%	-5%	85%
Guide Dogs for the Blind Association	Dec 94	£16.21.11m	£6.41m	-5%	0%	18%	19%	13%	110%
Rank Foundation Limited	Dec 94	£17.21.04m	£6.37m	2%	2%	100%	100%	14%	1

Fundraising: by Alan Pike

Fortune favours the biggest

The gap between the income of the largest charities and the rest is growing

Charities have a powerful interest in projecting themselves as reliant on the fundraising donations of individuals and the spare time of volunteers. This is their distinctive marketing stance in what is, for some charities, now literally a welfare market. But while the image of voluntarism is true, it is not the whole truth. Just as charities are substantial employers of full-time staff, many are also far more dependent on government and local authority finance and trading income than on public donations.

Recent studies co-ordinated by Johns Hopkins university in the US have provided comparative information about the scope of non-profit activities in several European countries, the US and Japan. The research shows that, around the world, private giving produces only 10 per cent of the sector's total revenue, with the UK slightly ahead of the average at 12 per cent.

These figures are based on broad definitions of what constitutes the non-profit sector, reflecting the different means of providing services like health and education in the countries included in the studies. But even when narrower, more conventional notions of charity are applied, public money and trading income remain important sources of finance. For the UK's biggest 500 charities, there is an approximately 60-50 balance between the donations, legacies and fundraising events that constitute voluntary income and other sources of finance - items such as public sector fees and grants, sale of goods and services and income from investments.

Even within the leading 500 charities, there are considerable variations in the way the two sources of income divide. Voluntary income is most important for the very

Top 20 charities by voluntary income

Charity	Year end	VOLUNTARY INCOME		Growth		As % of total income		Expenditure		Fundraising costs as % of total voluntary income	
		This year	Last year	Voluntary income	Total income	This year	Last year	Growth	As % of Total Inc.	This year	Last year
Church Commissioners for England	Dec-94	1 / 296.2m	292.5m	6%	1%	37%	36%	22%	103%	N/A	N/A
National Trust	Feb-95	2 / 273.4m	274.5m	5%	4%	58%	58%	4%	100%	12%	13%
Royal National Lifeboat Institution	Dec-94	3 / 258.2m	256.1m	8%	8%	90%	91%	1%	88%	7%	8%
Cancer Research Campaign	Mar-95	4 / 252.3m	242.8m	10%	12%	88%	89%	1%	124%	10%	9%
Imperial Cancer Research Fund	Sep-94	5 / 245.5m	245.3m	7%	2%	87%	82%	4%	115%	9%	10%
Oxfam	Apr-95	6 / 242.5m	243.5m	1%	11%	46%	50%	2%	104%	18%	14%
Save the Children Fund	Mar-95	7 / 242.0m	240.9m	-10%	-1%	46%	47%	-1%	100%	21%	19%
British Red Cross Society	Dec-94	8 / 237.1m	226.4m	9%	12%	44%	42%	2%	90%	N/A	N/A
Cancer Relief Macmillan Fund	Dec-94	9 / 236.1m	230.6m	18%	18%	98%	98%	1%	91%	25%	27%
Help the Aged	Apr-95	10 / 235.7m	233.8m	7%	8%	85%	87%	1%	98%	22%	23%
NSPCC	Mar-95	11 / 235.3m	218.4m	18%	20%	82%	85%	3%	97%	15%	17%
Barndrome's	Mar-95	12 / 232.8m	234.4m	-1%	3%	42%	45%	7%	107%	25%	24%
RSPCA	Dec-94	13 / 232.1m	228.0m	10%	8%	84%	82%	2%	91%	20%	20%
British Heart Foundation	Mar-95	14 / 231.1m	227.3m	7%	9%	79%	74%	1%	14%	23%	21%
Saviour Army Trust	Mar-94	15 / 228.8m	226.7m	2%	-1%	92%	80%	0%	63%	5%	5%
United Bible Societies' Trust Assoc.	Oct-91	16 / 228.0m	222.3m	51%	50%	88%	88%	2%	100%	N/A	N/A
Guide Dogs for the Blind Assoc.	Dec-94	17 / 227.0m	227.8m	1%	0%	80%	81%	1%	110%	33%	20%
ActionAids	Dec-94	18 / 226.7m	225.0m	6%	12%	72%	84%	1%	100%	17%	20%
Curie [Marie] Memorial Foundation	Mar-94	19 / 225.5m	227.7m	25%	21%	81%	80%	1%	95%	25%	22%
RNIB	Mar-95	20 / 224.0m	226.1m	0%	3%	48%	52%	2%	105%	35%	22%

Source: Hemington Scott

biggest organisations - in recent years it has yielded between 55 and 58 per cent of total income of Britain's 200 biggest charities.

The position reverses rapidly, however, as the size of charities diminishes. For those between 201 and 400 on the list of the 500 biggest, all forms of voluntary income accounted for only 39 per cent of total revenue in 1993. And for charities between 401 and 500 on the scale of size, voluntary sources of funds dropped to just 17 per cent of the total.

New figures on charitable giving will be published by the Charities Aid Foundation early in the new year. If they confirm the continuation of recent trends, they will show a growing gap between the income growth of the very largest, household name charities compared with the rest.

When CAF last produced figures - on changes in financial trends between 1991-92 and 1992-93 - they showed that, while the total income of the 200 biggest charities had advanced by 6 per cent in real terms, there was a 2 per cent fall in the income of the next largest 200.

Big charities are not typical of the voluntary sector as a

whole, but they dominate it in financial terms. Around 10 per cent of Britain's charities account for some 90 per cent of the sector's entire income.

The increased professionalisation of big charities with marketing and media specialists on their staff, access to substantial advertising budgets and the resources necessary to invest in sophisticated fund-raising techniques, are all factors operating to the advantage of the largest organisations in the competition to raise voluntary income.

In addition, there is concern among the smaller, community-based organisations that the current public funding changes, with the voluntary sector fulfilling contracts to provide welfare and other services, are giving big charities similar advantages so far as public money is concerned. Large charities are able to employ specialists to negotiate contracts with local councils and health authorities, and managers to co-ordinate the efforts of volunteer workers on businesslike lines.

Last month's Budget increased the limit on charitable donations qualifying for tax relief under Give As

You Earn, the payroll giving scheme, by 30 per cent. One of the disappointments in recent years, however, has been a recent lack of success in persuading the public to adopt tax-efficient means of charitable giving.

With the exception of the payroll giving change, the Budget will add to charities overall problems rather than help solve them. The cut in the basic rate of tax will reduce the amount of tax that charities can reclaim on deeds of covenant, costing the sector a possible £17m a year.

Charity finance directors are also disappointed by the government's continuing failure to introduce VAT compensation scheme. Charities pay an estimated £50m a year in irrecoverable VAT incurred in running such activities as day centres for the elderly, and the Charities Tax Reform Group has enlisted a substantial group of leading corporate supporters of charity in a campaign for compensation.

Many of the longer-term issues of charity fundraising and finance reflect wider questions about the sector's future. These relate to how private and corporate donors will react to increasing

businesslike charities using donated income to compete alongside private sector residential care companies and NHS trust hospitals in a social welfare market, and the financial and ethical pressures of becoming dependent on public sector contracts.

Recently, there have been welcome signs of a broadening of the discussion. Demos, the think tank, for example, proposed earlier this year that the tax issue should be resolved by attaching tax advantage to activities that meet particular social needs, rather than the legal structure of the organisation providing them.

Such ideas have been under discussion in the voluntary sector for some time. Because of the relatively low political priority attached to the sector, ideas for radical reorganisation do not reach the wider public policy agenda easily. But if pressure on charities to become more involved in the new welfare market continues, this will, eventually, have to change.

The decision to change the charity's name reflected a debate about the nature of disability. The term "spastic" was associated with the "medical model" of disability, defined in terms of what is wrong with a person. By contrast, activists favoured a "social" definition which looks at the barriers in society which stop disabled people getting jobs and living full lives. "The name change identified us with the social concept," says Mr Vernon.

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The charity decided to drop Spastic from its title in 1991. It invited suggestions for a new name, which were then rigorously market tested.

"Scope came out remarkably ahead," says Mr Vernon.

"People associate Scope with ambitions, widening horizons - all the go-ahead things."

Richard Brewster, chief executive, took the opportunity of the relaunch to review the charity's operations. "The pressure for us to change our name came first, but we took a step back to ask what it meant in terms of our organisation as a whole," says Mr Vernon.

The broad consultation with stakeholders - 220 local associations, volunteers, donors and families - must have given the charity something of a shock.

"We were seen as old-fashioned charity, wealthy and conservative, with a hand me down -

- and the fact that the principle shouldn't be absolute."

So the debate about the meaning of Barings has moved on. The episode helped awaken some of the smaller charities to the importance of keeping a close eye on their assets.

Another lesson from the collapse is that no charity should hold all its cash deposits in one bank. Although Barings account-holders got their money back, they have not forgotten the fright of the first week of frozen accounts.

Mr Fries says that cash deposit diversification is the key area in which the Charities Commission has revised its guidelines. Many charity fund managers now aim to keep no more than 5 per cent of their cash in the same account.

Mr Fries says the Barings episode has also reduced pressure on the Charities Commission to let charities invest more in derivatives. Before Barings, the commission's attitude seemed old-fashioned; after Nick Leeson, it appeared to be quite foresighted.

And last month a Law Commission-led review began of the Trustees Investment Act. Mr Day expects the review to impose a duty of prudence on trustees. Another issue to be studied is diversification. The act had been due for review in any case, but the Barings collapse will help concentrate the reviewers' minds.

These debates may appear esoteric to the hundreds of charities that relied on Barings Foundation grants. The foundation was often the first to give money to a project, prompting other donors to follow suit; it concentrated particularly on London, Merseyside and the north-east.

"In some ways Barings was as important for its innovative qualities as for its sheer size," says Mr Fries. In cash terms the National Lottery Charities Board will vastly outweigh Barings, while the Corporation of London has also entered the sector. This April it decided to release up to £10m a year to London voluntary organisations.

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However, nine months after Barings, few people in the charitable sector still preach diversification particularly devoutly. Mr Carrington points out that the Barings shares that the foundation held were non-tradable, so that it simply could not have diversified. Mr Siedler says that no company would set up a charity and endow it with its shares if it knew the charity would immediately sell most of them. He says: "In an ideal world a foundation would start with a diversified portfolio. But if it starts by buying shares it wouldn't suddenly diversify." It might, however, slowly diversify, he adds. Mr Fries says: "I don't think there's any doubt about the principle of diversification."

The Barings collapse seems largely forgotten. "A view is emerging that the collapse was a one-off," says Mr Siedler. "The financial community seems to be taking it that way too - there hasn't been a general call for much tighter controls on banks."

CASE STUDY

Society's name change enables it to alter focus

Changing its name gave Scope - the former Spastics Society - the chance to redefine its organisational culture and open new avenues of support.

"We were losing our market because of the stigma attached to the word spastic," says Glynn Vernon, vice-chairman of the governing council, who himself suffers from cerebral palsy. Some people with the disease did not know that the Spastics Society was there to assist them, and others refused to co-operate with it. "There was confusion."

At the same time the label "spastic" formed a barrier to public relations and business partnerships. "People were not wearing our T-shirts with pride. Companies which had spent years building up a brand identity were not keen to have 'spastic' on the label of their product," says Claire Mallinson, head of company and trust fund-raising.

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The name change and repositioning of the charity opened new opportunities for corporate partnerships.

"Some local authorities would not work with us because of our name," says

people should be grateful" attitude to services," Mr Brewster says. He tried to use the name change to redefine the culture of Scope - as an enabling and empowering organisation.

"We had to find ways of linking our public relations, and regional management with front-line activities and cash to make a success of repositioning," he says. "It meant a complete organisational overhaul."

The old Spastics Society had an antiquated system of management planning. Mr Brewster blamed mismanagement of the Spastics Pool - a lucrative football gambling game abolished by legislation in 1968 - which left the charity cash-rich for years with easy money. "If someone had a good idea, you could do it," says Mr Brewster. "Strategic planning did not exist - it did not have to."

The legacy of these years became apparent only in the 1980s. "We had no structure to ensure we stopped spending before the money ran out," marvels Mr Brewster. The charity did not

have any means of apprising overheads against operational activities. The only planning involved drawing up a provisional budget for the following year.

"You cannot make rational decisions on allocating resources if you carry on believing money is no object, making decisions as ideas emerge rather than planning the future," says Mr Brewster. However, he admits, "only in the last six to 12 months have we come to terms with that fully."

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"Scope came out remarkably ahead," says Mr Vernon.

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SPORT / ARCHITECTURE

Going to the dogs in a munificent manner

When a London cabbie has no idea how to find Hackney dog track, you can be sure that greyhound racing is in trouble. When you are met at the stadium by a young woman accountant from Price Waterhouse, receivers to the enterprise, it becomes a racing certainty.

In a sporting life that has taken me from obscure goings-on in the wild brown under of the Australian bush to the Olympic Games in Barcelona, I have never seen a more vaultingly ambitious venue than the rebuilt Hackney dog stadium, in east London.

In excess of £10m had gone into the new East Stand when it opened six weeks ago. The main bar and viewing area is on the scale of an airport terminal, and looks through acres of plate glass on to the track itself. The countless tables and chairs are in shimmering stainless steel. But the night I went, more than 90 per cent were empty. The scene resembles the deserted set of a Ridley Scott movie.

The name that springs to mind on seeing the elegant tiered restaurants upstairs is that of Sir Terence Conran. Had the restauranteur who brought mega-dining to London decided to strike out into the sports bar business, I wondered. With 500 covers and menus straight from the West End crab and shrimp cocktail gazpacho is the first course of the £38 set dinner. Hackney would fit the Conran portfolio beautifully.

Yet if it hadn't been for the gits traders from Merrill Lynch (four tables of eight) enjoying a pre-Christmas office party, and satirist Angus Deayton leading a shriek of TV luvvies, the restaurant would have been quiet.

SPORE



KEITH WHEATLEY

"Eastenders don't want prawns and bloody seaweed for forty quid," a tic-tac man confided, in rich Cockney. "This place is run by bleedin' idiots." There were only five bookies out on the rails for him to signal to, and punters were rarer than 20-1 winners.

Earlier in the week, the tic-tac man continued, several bookies had taken not a single bet on the first two races. With his uncles and brothers, my informant owned four dogs himself. It costs about £180 a month to keep a greyhound in training but it is becoming an expensive luxury. "My grandad always had dogs and never saw a trainer's bill. The winnings took care of that, but look at the prizemoney now."

I studied the small print at the top of the race card. In the second race of the evening, Coonagh Castle won comfortably, £5 with the Tote earning me a reward of £17.50. Mr J. Bradley, Coonagh Castle's lucky owner, took home prizemoney of £42. Clearly the numbers at mid-week

Hackney are not quite stacking up (hence Price Waterhouse), but is this an isolated case of *folie de grandeur*, an investment beyond all economic reason, or have the structural problems of a declining sport stymied a brave attempt to push into a brighter future?

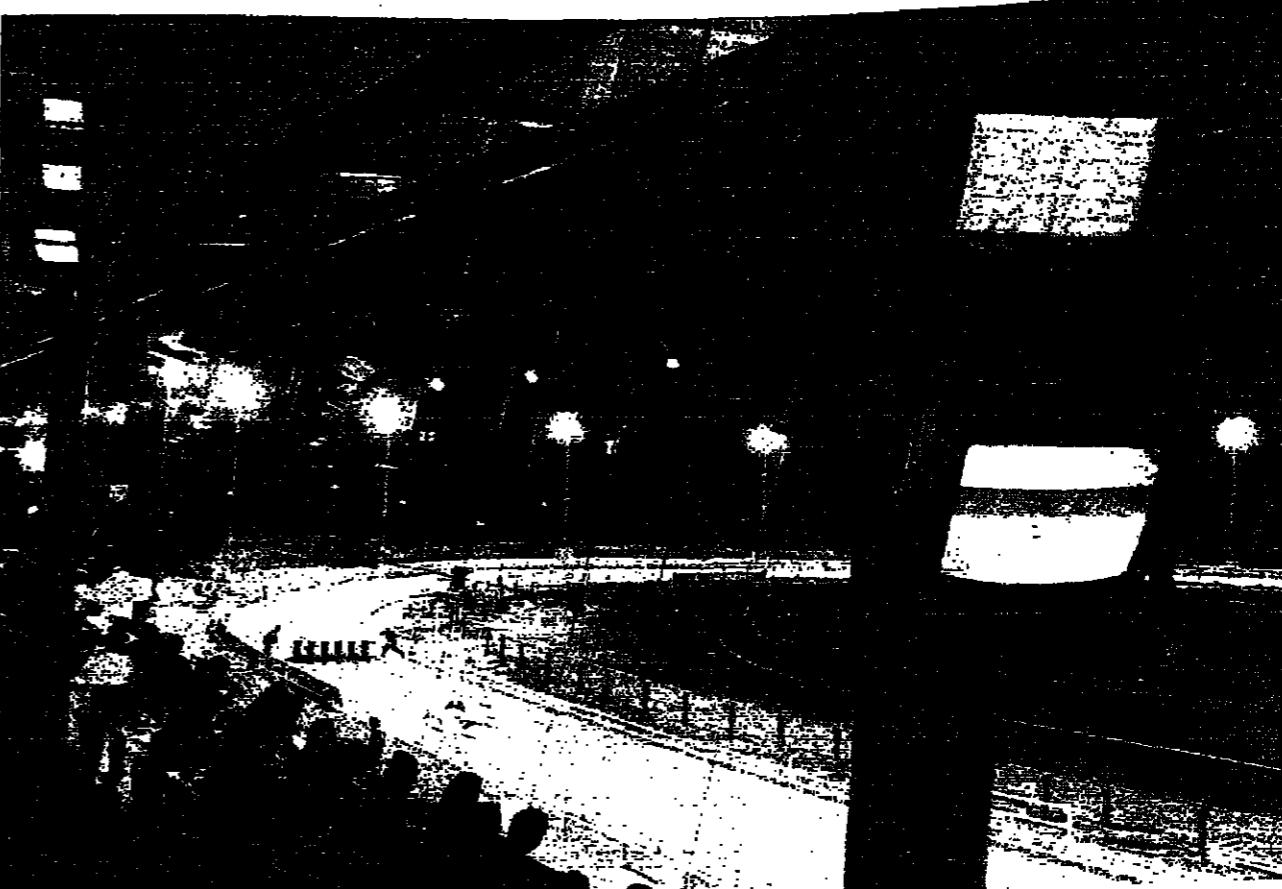
Greyhound racing has always been a curious hybrid: part sport, part supper theatre, part betting occasion. When it began in Britain a mere 70 years ago, betting was the dominant feature. Before the days of legal off-track betting, it gave the urban working man somewhere close to home where he could enjoy the excitement of a punt.

Between the two world wars, crowds of up to 25,000 were not unknown at top London tracks. Big meetings at Wembley or White City were exciting sporting and social occasions. When I first worked on the London Evening Standard 20 years ago, the first edition of the day was the Greyhound Special, on the streets at 9.30am, selling 60,000 copies and earning its owner, Lord Beaverbrook, a fortune.

Times have clearly changed for the worse. In the whole of 1994, fewer than 4m people attended the 6,882 meetings run under the auspices of the National Greyhound Racing Club; an average of 612 fans per session. It makes the average gate at a Third Division football match seem like the Cup Final.

"There's no doubt that greyhound racing is at a crossroads," concedes Geoffrey Thomas, chief executive of the NGRC. "We've got to decide whether to compete for the leisure pound or the gambling pound."

I suggested that with bookmakers laying off staff and closing shops and the pools



Hackney's ambitious new stand: greyhound racing is a curious hybrid - part sport, part supper theatre, part betting occasion

companies looking at a 30 per cent drop in stake money - all complaining bitterly about the impact of the UK national lottery - the British "gambling pound" was stretched rather thin at present.

Hackney decided to go in pursuit of the leisure pound to the ultimate degree.

Thomas: "It's a restaurant the like of which greyhound racing has never seen before. It gives you a meal to rival any in London and the cabaret is the dogs."

The NGRC recently commissioned a

study of the sport and its future. It was discovered that those in the business of dog racing appear to enjoy a return on their investment of 7 per cent. Sadly, even that modest payout looks elusive when set against the mountain of loaned money poured into Hackney before it went belly-up on opening night. Even the electric

have remained unpaid for.

Alan Barratt is the accountant who has gone to the dogs. In his varied career with Price Waterhouse, nothing quite like run-

ning a greyhound stadium has hitherto come his way. He says there is life in the sport and there is big interest in buying Hackney - although not at a price that will recover the huge investment.

"We had over 100 replies when we advertised the business," says Barratt. "Some of the people you wouldn't want to be seen dead with. Oops!" We both laughed at the phrase. Will greyhound racing ever be safe enough for Sir Terence and raspberry vinegar?

Green (Methuen, £20), is an important book for anyone interested in the recent history of taste, architecture and the world of conservation. Candida Lyett Green is Sir John's daughter. She writes movingly and elegantly about her father. He was crucial to a British understanding of architecture and of the past. The letters show how unsentimental he was. Betjeman had no time for architectural dogmatists, and he brought his wonderful sense of humour to the whole architectural debate, which today has become so polarised. Without him there would be no Victorian Society, no real enthusiasm for 19th century English painting - and, I suspect, less of an appetite for English poetry.

Perfect time to fill those bookshelf gaps

Colin Amery describes a few indispensable tomes for architecture aficionados

There are only a few classic texts that should be on the shelves of every architecture aficionado. Christmas is the time for generous souls to fill the gaps on their friends' shelves, and during the last year some important additions for any library have been published.

Top of my list is a new edition of the one indispensable book for any architecture historian, professional and amateur: *A Biographical Dictionary of British Architects, 1600-1840*, by Howard Colvin (Yale University Press, £50). It is the third edition of a book that represents a lifetime's work for Sir Howard Colvin, one of the most erudite and hard working architectural historians in the world. He has

been at St John's College, Oxford, for as long as anyone can remember, quiet and diligent in his studies.

I remember meeting him one

weekend in Hampshire where he was spending days checking clannish tombstones in remote churchyards to be certain of the dates of birth and death of architects listed in his dictionary. Some 2,000 architects are there, from Inigo Jones to Sir Charles Barry. In this edition there are 150 new names. It is a book carefully compiled, full of architectural

fact and rich in local history. With Colvin and Pevsner on your shelves you are more than set up for a grand tour of British architecture.

I admire nearly as much a new book by a young and inspiring scholar that is likely to become an indispensable volume: *Classical Architecture in Britain - The Heroic Age*, by Giles Worsley (Yale University Press, £29.95). Worsley is the editor of *Perspectives*, in which he proves that it is possible to make architecture accessible and fascinating. His book is a

fresh look at the architecture of Britain in the 17th and 18th centuries, but it also looks at the same period in America and Europe. He makes a convincing case for the co-existence of styles and the long continuity of a variety of architectural approaches. He does not see the development of architecture as something that has an inevitable progression leading towards one universally approved end.

Modernist and neo-classical critics have for far too long twisted architectural history

to fit their own views of how they think contemporary architecture should develop. This book does not do that. It grasps the catholicity of the past as well as the present, and with illustrations that are very intelligently chosen leads the reader enjoyably into the two heroic centuries. The Gothic finds its way into the Baroque as a parallel style to Palladianism, and Worsley makes the important point that architects as talented as Wren and Vanbrugh were as good at the Gothic as at the Baroque. To

some architectural historians this could be seen as a tendentious book, as Worsley is a great myth breaker.

The kind of architectural book I particularly enjoy is the one that deals with an individual building in detail and relates it to the people who built it and lived in it, such as *Cliveden: The Place and the People*, by James Crathorne (Collins and Brown, £35). In the case of Cliveden by the Thames (now a splendid hotel), the people who lived or stayed there are more interesting

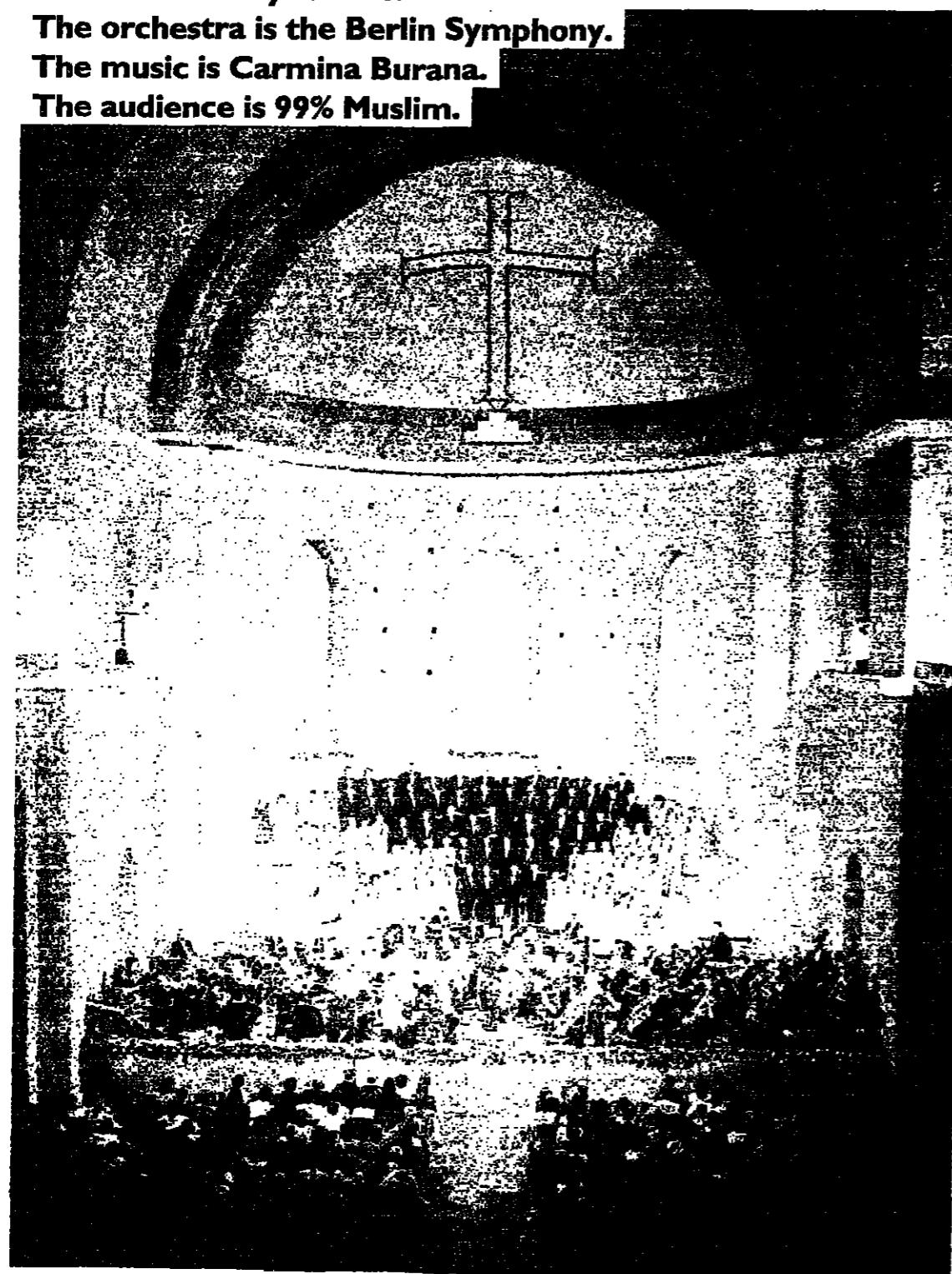
than the house itself, despite the fact that it was designed by Sir Charles Barry.

His heyday was when Nancy

Astor played hostess. An American teetotaller, she nevertheless made the place a model for Edwardian English country house hospitality. Crathorne feels obliged to mention the Profumo affair, and the fact that it all began at a weekend around the swimming pool at Cliveden.

John Betjeman's Letters, Volume 2, 1951-1984, edited and introduced by Candida Lyett Green

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The orchestra is the Berlin Symphony.
The music is Carmina Burana.
The audience is 99% Muslim.



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COMMENT & ANALYSIS



Michael Prowse · America

The charitable urge

As government welfare spending comes under more pressure, a greater response from individuals is needed to close the gap

How much did you give to charity this year? How much time did you volunteer? These are not the kinds of question a polite person asks today. But with welfare states under growing pressure in most rich countries, they are questions that most of us should not dodge for much longer.

Many people now recognise that government spending on social welfare must be slowed, if not put into reverse. But they often forget the logical corollary: that voluntary or non-profit agencies should assume greater responsibility for the poor and disadvantaged. Yet this can happen only if individuals – and that means you and me – become more willing to contribute money and time voluntarily. The days when all social problems could be delegated to "the government" are over.

The US is better placed than most other countries to make this transition. It is often depicted as harsh and uncaring – on the grounds that public welfare spending is comparatively meagre. But a better guide to people's compassion is their willingness to help each other voluntarily.

Viewed this way, America emerges as one of the world's more caring societies. As the chart shows, the US voluntary sector accounts for about 6.4 per cent of gross domestic product, well above the ratio in Europe or Japan – and this excludes religious groups which are leading providers of welfare in many communities.

Such figures, moreover, understate the role of individuals because US non-profits rely less heavily on government funds than their counterparts elsewhere. Last year individuals gave \$106bn, or nearly 2 per cent of personal income, to charity. Personal giving, incidentally, rises more than proportionately with income: contributions rise to 3.6 per cent for households with incomes of between \$100,000 and \$150,000 and to 4.9 per cent for incomes of \$1m. Among the super-rich

with net worth of \$50m or more, donations average about 18 per cent of income, giving USA, a non-profit group, says.

International comparisons are notoriously unreliable, but most estimates suggest Americans give much more generously than people elsewhere. A 1991 survey by the British-based Charities Aid Foundation found persons giving averaged about £19.50 a month in the US against £7 in Britain and only £4 in France.

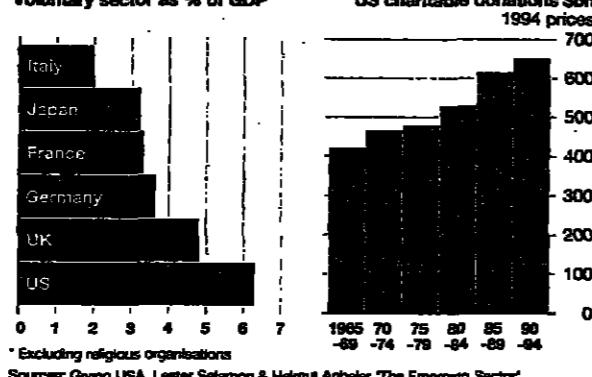
Americans are also more likely to volunteer than other nationalities. According to the Independent Sector, an umbrella body for US voluntary groups, 85m people volunteered an average of 4.2 hours a week last year.

Many US non-profits, of course, are the first to complain that they will be unable to meet more than a fraction of the likely demand for social services if congressional plans to curb welfare spending are enacted. Mr Richard Steinberg of Indiana University, an expert on the economics of philanthropy, says US studies indicate that increased private giving would replace at most a third of any cuts in public spending, and possibly much less.

Data for Britain, he says, indicate an appallingly low replacement rate of only 0.5 per cent – in effect, a zero philanthropic response.

The most generous nation

Voluntary sector as % of GDP



Such figures, however, should not be seen as scientific proof that public withdrawal from welfare provision would spell disaster. In the first place, even if private giving did not rise much, huge sums could be raised if US non-profits focused more directly on the truly needy. For historical reasons most spending today is on healthcare, education and research; social services account for only about 11 per cent of personal income, or the "half-time". Families who met or exceeded this standard should get tax credits in addition to the normal relief for charitable donations, he argued.

Foundations, in particular, often seem keener to support prestigious institutions such as universities than the disadvantaged. Mr Pablo Eisenberg, director of the Center for Community Change in Washington, a voluntary group, notes that foundations pour money into research, rather than action, despite pleas from thousands of non-profit groups.

Nor should the relative parsimony of individuals be taken as a fact of nature. People's willingness to give has been undermined by the enormous growth of government in recent decades. Why start a community self-help group if everyone is "entitled" to government support? Why donate to charity if you are forced to pay 40 per cent of income in taxation? It is no accident that philanthropy is weakest in precisely those European

countries where the state is most dominant.

Rather than adopting a defeatist view of private philanthropy's potential, policy-makers should take active steps to encourage a greater sense of personal responsibility. A few years ago, Mr Lawrence Lindsey, now a Federal Reserve governor, urged the nation to set a new standard of giving: 5 per cent of personal income, or the "half-time". Families who met or exceeded this standard should get tax credits in addition to the normal relief for charitable donations, he argued.

Ms Arianna Huffington, chair of the Center for Effective Compassion in Washington, a conservative advocacy group, favours bolder efforts to change people's thinking.

Citing the success of campaigns to reduce drunk driving, she argues that people will respond if they can be made to understand that government welfare has failed and that there is no substitute for greater citizen involvement.

"Ultimately each one of us has a responsibility to get involved, to lead by example, to spend time each week, personally going out and helping."

Her group intends to use every available weapon to shift attitudes, including a "hypocrisy index". By examining tax returns she plans to expose individuals who personally give little or nothing to charity, yet who make a public show of social compassion by demanding that government spend more of other people's money on the poor.

Ms Huffington is surely right both in arguing that conventional welfare policies are failing and in pressing for greater citizen involvement.

Too many of us soothe our consciences by telling ourselves that "we pay taxes". It is wrong to claim moral credit for an action – paying taxes – that is involuntary. We should judge ourselves, and our fellows, by the strength of our philanthropic urge.

The resultant "transition zone" of the EU should embody the principle of asymmetry recognised in the so-called European Agreements, permitting measures which discriminate in favour of the eastern economies.

Without a new strategy of this sort, we run the risk of either premature economic integration which damages eastern Europe's transformation, or excessively slow political integration which breeds disillusionment and resentment in the east.

New EU strategy for eastern Europe

From Lord Eatwell

Sir, The perspective adopted in your leader "Enlargement is what matters" (December 5) is one of EU self-absorption. The prospect of eastern European countries joining the EU is examined solely in terms of the effect upon current members, with no reference at all to the likely economic consequences

upon countries to the east. The experience of the former East Germany should be a warning against such introversion.

Full membership within currently mooted time periods would have a very destructive impact on the emerging market economies of eastern Europe, with profound economic and political consequences for Europe as a whole.

The EU must devise a new membership strategy for eastern Europe, accommodating the desire for full political integration, but introducing a new approach to long-term economic transition.

The performance of the eastern economies is today

distorted by the bilateralism of their relations with the EU. This enhances the economic division within eastern Europe, and creates a "beauty contest" in which each potential applicant seeks to outdo the others.

As a result, and as Mr Wallace wishes, institutions do benefit the UK economy and the long-term value of his savings.

But they do not upset these basic truths.

The only point at which I

would disagree with Mr Wallace's aims is that he

would want institutions to

resist takeover bids in all but

and helping others.

A far better approach would be to create common economic arrangements which encourage potential and successful applicants to forge closer relationships with one another over a lengthy transition period.

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The results of the summit appeared to justify that optimism, with US President Bill Clinton speaking of a new "Spirit of Miami". Its main commitment was a pledge to negotiate a Free Trade Area of the Americas, stretching from Alaska to Tierra del Fuego, by 2005.

To reinforce the message, Mr Clinton and the leaders of Canada and Mexico invited Chile to enter formal negotiations to join their North American Free Trade Agreement.

While many saw the objective as over-ambitious, the plan seemed to symbolise the desire for an economic partnership to replace the historically strained relationship between the US and the countries in its "backyard". But in the year since the summit, much of the Spirit of Miami has evaporated.

The first blow fell less than

two weeks after the summit: a Mexican devaluation that set off a financial crisis and recession south of the Rio Grande.

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In the first half of 1995

Mexico registered a \$6.1bn

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That undermined the

chances that US politicians

facing elections next year,

would concede "fast track"

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9EL

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Risky strategy for bullion bankers to rely on central banks' supplies

From Mr Andrew T. Hecht

Sir, I concur with David Lascelle's observations in "After the gold rush" (December 5). Bullion banks purchase gold for delivery years in the future from producers seeking to lock in prices. With no natural buyers of long-term gold, bullion banks must sell gold short-term until the producer is obligated to deliver. Bullion banks turn to central banks to lend them gold to deliver against these short-term sales. These mismatched positions have minimal profit potential but carry the risk of large losses in periods of tightness in supply of gold.

Nonetheless, bullion banks have established unprecedented positions with

wider time spreads between purchases and sales. This speculative activity has been fuelled by a more than doubling of the liquidity provided to the market by central banks in the past 18 months.

Recent market tightness, which so unversed observers, was caused by mere concern that central banks might reduce loans of gold in order to dress up their year end balance sheets.

These mismatched positions have minimal profit potential but carry the risk of large losses in periods of tightness in supply of gold.

For example (as Mr Lascelle observes), they might decide such activity is inappropriate because it does not involve any critical national interest. Or they might decide such lending

is too risky. Drexel's bankruptcy caused many central banks to cut back on gold lending. Bullion bankers who ignore market fundamentals and believe central banks will always be lenders of last resort run the risk of being unable to cover short positions economically.

Perhaps recent events in the gold market are a warning of the potential consequences of an unusual and extremely speculative market structure which can be compared to the oil position that hurt Metallgesellschaft just two years ago.

Andrew T. Hecht, manager, global bullion, Philibro Division, Salomon Inc, Westport, CT, US

Long-term investment already reality

From Mr David Damant

Sir, Mr William Wallace asks

(Letters, December 7) for

advice on how best to identify

a financial institution which

will take a long view in the

management of his savings. I

would not wish to name

individual companies, but the

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FINANCIAL TIMES

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Monday December 11 1995

Japan should try harder

The Nikkei trotted closer to the magic 20,000 mark last week to the sound of investors proclaiming yet another turning point in Japan's tortuous recovery. With last week's November figures showing a much-needed fall in the current account surplus the hope is that Japan can now enjoy the effect of concerted government stimulus without, for once, the lurking worry of a further rise in the yen. Next year can hardly fail to be a marked improvement on 1995, when the Organisation for Economic Cooperation and Development now expects the economy to grow a mere 0.3 per cent, compared with the 2.5 per cent it predicted a year ago. The OECD's latest survey predicts 1.8 per cent growth for next year, which would be the best the economy has achieved since 1991, though below the government's forecast.

The Y14,220bn fiscal stimulation package unveiled in September ought indeed to mean a pick-up in activity over the course of next year. Certainly, the economy's underlying weakness can no longer be blamed on insufficiently loose macroeconomic policy. Official interest rates have fallen from 6 per cent to 0.5 per cent since 1990, while the combined central and local budget deficit has moved from about 0.5 per cent of GDP to nearly 8 per cent in 1995.

Mix of measures

But sustained growth, as opposed to tantalising signs of life, will require more than a bout of loose monetary and fiscal policy. Some mixture of rising domestic incomes and prices, a falling yen and large-scale, publicly funded bail-outs of financial institutions is needed.

As a recent report for London-based Smithers and Company points out, official stimulus packages can only have a temporary effect as long as the government fails to tackle the problem at the root of the economy's difficulties: the continued overvaluation of asset prices relative to incomes.

Although land prices have fallen dramatically since 1990, they still remain high relative to national income, by either international or historical standards. A legacy of high land prices is excessive.

Blair, business and Scotland

Mr Tony Blair, the Labour party leader, has done his best to reassure Scottish companies that Labour's plans for Scottish home rule will help businesses, not hurt them. Some remain unconvinced. Are they right?

Labour said that if it wins the next general election, it will use the first parliamentary session to set up a Scottish parliament. This body would take over responsibility from Westminster for matters now handled by the Scottish Office, such as education, health, local government, economic development and agriculture. It would receive its income from Westminster, but controversially, would have the power to "vary" the basic rate of income tax by 3p in the pound.

Speaking in Scotland on Friday, Mr Blair tried to calm some business fears. He denied that his plan would generate more bureaucracy, or that it would ultimately lead to Scottish independence. As Mr Michael Forsyth, the Scottish secretary, has suggested, Labour also says that the new parliament would not be able to alter corporation tax or establish separate business regulation.

Businesses in Scotland have become more sympathetic to constitutional change since the last general election, but strongly oppose a parliament with the power to increase taxes. Their main concern is that a higher income tax rate would handicap Scottish business and discourage inward investment, partly by making it harder for businesses to attract employees. Some also worry that Scotland's influence at Westminster could be weakened, particularly if the post of Scottish secretary were downgraded or abolished.

Convincing responses

Yet bitter controversy over the future of Scottish government is not good for business. Overwhelming popular support for devolution has been sustained in Scotland for two general elections; it will have to be addressed if Labour wins the next election across the UK as a whole. The challenge for Mr Blair is to provide convincing responses to the profound questions devolution raises for Scotland's relationship with England. In particular,

indebtedness and low returns on equity. These make corporations vulnerable to further falls in land prices, which is one reason why the government is trying to slow the price correction down. Yet without it, the economy will be deprived of its best hope for a recovery in domestic demand: the housing sector, where high prices have done much to prevent the Japanese from enjoying a standard of living in line with their high incomes.

Bad debt problem

The government has long hoped that economic recovery would make the economy's bad debt problem disappear, by allowing the indebted financial institutions to grow out of the gaping holes in their balance sheets. Thanks to belated cuts in interest rates, the largest banks have begun to do just that. Yet, as the OECD notes, the bulk of smaller institutions will not be able to get out of danger without an improvement in asset prices; precisely the opposite of what the economy needs.

One way or another, the losses hidden in the overvaluation of asset prices relative to incomes have to be incurred. This could occur openly, through bail-outs combined with further falls in asset prices. Alternatively, and less openly, it could occur through the more time-honoured route of general inflation, which would allow the relative change to incur without large further absolute falls in nominal asset prices.

There are signs of a more determined official approach to orderly management of problem assets in the financial sector, although members of the government continue to bicker about the amount of public money involved.

Understandably so, since this is likely to prove enormous. Likewise the Bank of Japan seems resigned, at least for the moment, to supplying as much liquidity as the market will bear and keeping interest rates at a record low.

Slowly, then, the authorities are edging towards the policies needed to revive the economy in the long term. What they have yet to accept is quite how aggressively these will need to be - and how long it may take.

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He proposed "stability pact for Europe", which would oblige EMU member states to cut their annual budget deficits stringently to 1 per cent of gross domestic product in times of normal growth, is a policy about which "nobody has any economic doubts".

Rising unemployment may have fuelled fears that Germany's recovery is running out of steam, but Mr Waigel, while

he must confront the issues of taxation and Scotland's future representation at Westminster.

The proposed parliament's power to vary income tax by 3p would never, in practice, lead to lower taxes. English MPs would not approve levels of grants to Scotland which allowed Scots to enjoy lower tax rates than English constituents. Similarly, if the parliament raised Scottish taxes, English MPs might question the need to maintain grants at present levels, which give Scotland about 10 per cent of public spending compared to its 8.8 per cent share of population. The spectacle of a region enjoying increasing autonomy from Westminster, as well as a disproportionate share of public funding, might begin to seem an oddity, and an easy target.

Fiscal deficit

The problem is that Scotland's finances are not strong enough to grant it as much autonomy as Mr Blair's constitutional reforms imply. Scottish Office figures show that in 1993-94, total government spending in Scotland was £38m higher than the £20.4bn tax revenues raised in Scotland, excluding North Sea oil revenues.

The figures suggest that Scotland would have had a fiscal deficit of 1.5 per cent of gross domestic product, excluding oil, compared with the 0.5 per cent for the UK overall.

Some suggest that Scotland should have a larger share of oil revenues to help fill this gap.

But even in the unlikely event that proved politically palatable, government revenues from oil and gas are now too low to be a solution - just £1.2bn in 1993-94, and £1.6bn last year.

Labour has also sidestepped the West Lothian question: the discrepancy between the rights of Scottish MPs to vote on all matters at Westminster, and that of other MPs, who would be unable to vote on many Scottish issues.

To the extent that Labour avoids these questions, the consequence is uncertainty on many fronts, from tax policy to the nature of relations between Edinburgh and Westminster. Despite his comments on Friday, Mr Blair has not yet answered these points. Until he does, Scottish businesses are right to worry about his plans.

A star is destroyed

■ **Godzilla**, Japan's only internationally known movie star, is being put down. Toto, Japan's largest film distributor and creator of Japan's favourite monster, has unveiled *Godzilla vs. Destroyer*, which it says will be the final film episode - number 22 - in a series which began 41 years ago.

Godzilla, like Japan, became an economic miracle by recreating itself in postwar years, only to take a hammering in the economic upheavals of the 1990s. Toto has now called an end to *Godzilla's* cycle of death and rebirth, on the grounds that it and the radioactive dinosaur have run out of ideas.

The typical *Godzilla* film ends in a battle in which large areas of prime Japanese real estate are levelled. As the dust settles, the wounded monster stomps off into the Pacific ocean, re-emerging a year or two later in a new film, usually around Christmas, to launch a fresh attack on Japan and the rest of the world. Toto is coy about how much cash *Godzilla* has earned over the years, but reckons that he has sold nearly 80m tickets so far.

But like so many Japanese retirements and resignations, *Godzilla's* farewell is not as final as it seems. He will cross the Pacific and reappear, says Toto, in a Hollywood version in summer 1997.

Australia's cinemagoers have already started referring to him as Gareth Evans.

COMMENT & ANALYSIS



Wolfgang Voigt/Contrast

The FT Interview · Theo Waigel

No soft options on hard issues

Mr Theo Waigel, Germany's finance minister, insists that he is no softy. The stocky 56-year-old with the bushy black eyebrows and booming voice is already the second longest serving finance minister in the history of the Bonn republic.

He is the doyen of the Group of Seven finance ministers. He has headed the Christian Social Union, the Bavarian sister party to Chancellor Helmut Kohl's Christian Democratic Union, for seven years, winning 95 per cent of the delegates' votes at the party conference in September.

In a country where coalitions are the rule rather than the exception and political parties have started to show a distressing tendency to internal disarray, the CSU is a disciplined vote-gathering machine which governs Bavaria with an absolute majority.

But in the interview, the minister was unwavering in his support for the project. EMU was "not a risky policy". It was in Germany's interests.

"No other country has such an interest in free competition, free export markets and a large internal market," he said. The Maastricht treaty had already proved its worth.

"Without Maastricht, it would have never been possible to attain an average inflation rate in Europe of 3 per cent today compared with 13 per cent 10 years ago."

However, Mr Waigel

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Monday December 11 1995

MoDo
PULP, PAPER &
PAPERBOARDMARKETS
THIS WEEK

PHILIP COGAN:
GLOBAL INVESTOR
Emerging markets, who needs them? From being everyone's favourite investment sector in 1993, the stock markets of the developing countries have taken a back seat to this year's real growth story - corporate America. But after two years of underperformance, 1996 could represent a better buying opportunity than most. Page 24

MARTIN WOLF:
ECONOMIC EYE
Recorded crime in the UK is up 70 per cent since 1981, but has fallen nearly 10 per cent since 1992, to the delight of Mr Michael Howard, the home secretary. His joy over this decline may well prove premature. But his belief that harsher sentences do deter crime is not as irrational as many critics argue. Page 24

BONDS:
Activity in the syndicated loans market shows little sign of abating, although the number of new deals is likely to slow ahead of the year-end. Page 26

EQUITIES:
The speed and efficiency of the UK government's sale of its remaining stake in British Petroleum through a "bought deal" last week has sparked a debate about whether the time-consuming book-building process is the best way to execute equity offerings. Page 28

EMERGING MARKETS:
Capital markets, one of the missing pieces in Romania's post-communist reforms, are poised to take off in Bucharest after an absence of half a century. Page 25

CURRENCIES:
The Bank of England and the Bundesbank will be in the lime-light this week as markets wait to see whether lower interest rates are in store. Page 33

COMMODITIES:
The New York cotton market has been pretty well bailed out in recent weeks and traders are awaiting the next US Department of Agriculture crop estimate, which is to be released today. Page 24

INTERNATIONAL COMPANIES:
The Zurich Stock Exchange's commission said on Friday it was launching an internal investigation into possible insider trading before Elektrowatt, Switzerland's largest electricity generator, made its SF1950 a share bid on Thursday for Lands & Gyr, the electronics group. Page 22

UK COMPANIES:
Granada, the TV and leisure group which is in the midst of a £3.2bn hostile bid for Forte, has had discussions with the Takeover Panel about the hotel group's disposal programme. Page 22

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This week: Company news

US ULCER THERAPIES
FDA ruling could settle shape of \$5bn market

The shape of the \$5bn-a-year US ulcer drug market could be settled on Wednesday when an advisory committee of the Food and Drug Administration (FDA) considers new ulcer therapies from two of the world's biggest drug companies, Glaxo Wellcome of the UK and Sweden's Astra.

Astra is offering a combination of its top-selling ulcer drug Losec in combination with clarithromycin, an antibiotic made by US drugs company Abbott Laboratories.

Glaxo Wellcome has a new drug, Pyridox, in combination with either clarithromycin or amoxycillin, another antibiotic, which is made by several different companies.

The combination of existing ulcer drugs with antibiotics is designed to eliminate a kind of bacteria called *helicobacter pylori* which has been associated with ulcers.

Analysts believe the FDA advisory committee is likely to give the go-ahead to both companies' drug/antibiotic combinations.

"There is probably some use of the combinations already in the US," said Mr Peter Leising, analyst with Salomon Brothers in London.

This is largely because the US National Institutes of Health, the US government's medical research body, said in February 1994 that all peptic ulcer sufferers should take antibiotics with their patient ulcer treatments.

Pyridox, which would be called Tritic in the US if approval is granted, is a molecule related to Zantac, Glaxo Wellcome's ulcer drug that has been the world's best-selling medicine since the mid-1980s.

Clinical trials suggest that Astra's Losec, which belongs to a class of drugs called proton pump inhibitors, is more effective than Zantac, which belongs to an older class of drugs called H2 antagonists.

1995

BAT loses ITC boardroom battle

By Kunai Bose in Calcutta

BAT Industries, the UK tobacco and financial services group, yesterday lost a boardroom battle over the chairmanship of ITC, India's largest tobacco group in which it holds a stake of almost 32 per cent.

The ITC board, supported by Indian institutional shareholders which own 38 per cent of ITC, brushed aside BAT's opposition and appointed Mr Yogesh Chander Deveshwar executive chairman.

BAT's two representatives on the ITC board, Mr Norman Davis and Mr Richard Pilbeam, were grim-faced as they left the meeting. However, it is understood they registered their dissent at Mr Deveshwar's appointment. Mr Deveshwar, currently vice-chairman, will succeed Mr Krishan Lal Chugh who retires this month after losing BAT's confidence. Mr Chugh had backtracked from a commitment to help BAT acquire 51 per cent of ITC. Mr Deveshwar's appointment is for five years.

At this weekend's nomination committee meetings, BAT representatives again suggested it would be in ITC's interest if an internal candidate became chief executive while a distinguished outsider was appointed chairman.

The institutions argued the company had been growing and there was no need for a change. BAT had been helping the Indian institutions see its point of

view and there would be a "consensus chairman". The UK company is likely to express reservations about the appointment to the finance ministry. BAT said it would have preferred to have split the roles. But having failed to persuade shareholders of that, it was looking forward to working with the new management.

In India, the contest had become a political issue. After it was clear Mr Chugh had to step down, he suggested ITC should escape UK control to become India's first multinational.

However, a senior ITC executive said yesterday: "The financial institutions have

overlooked the point that there is no executive director who enjoys the confidence of all shareholders. An outsider chairman could have played the role of holding the team together. Restructuring is not yet over. A divided house is not going to be of help. We also need a strong input from BAT if we are to make anything of the financial services business."

Mr Deveshwar, who joined the company in 1988, was chairman and managing director of Air India for more than two years before returning to ITC as vice-chairman in 1994, promised he would discharge his responsibilities.

The ITC executive warned: "He can work effectively provided he wins back BAT's confidence. He must also ensure that there is no exodus of executives from the company."

L'Oréal expands with \$660m acquisition of Maybelline

By Tony Jackson in New York and John Riddick in Paris

L'Oréal, the French cosmetics company, is to pay \$660m for

Maybelline Perella, which bought Maybelline in 1990 from the drug company Schering-Plough for \$300m said it would sell its remaining 29 per cent stake to L'Oréal at the bid price of \$36.75. It said that after special dividends and share buy-backs totalling about \$160m, the residual cost of its shares was \$5 each.

Wasserstein Perella has at times proved controversial. Having taken the company public in 1992, it distributed 50 per cent of the equity last year as a form of payment to its investors, reducing its own stake from 70 per cent to 20 per cent. Two days later, Maybelline issued a profits warning and its shares fell from \$30 to under \$20.

Wasserstein, which had four representatives on the Maybelline board including co-founder Mr Bruce Wasserstein as chairman, said it had been unaware of the profits warning, and paid investors about \$16m in compensation.

Maybelline, the second biggest US cosmetics company after Revlon, makes mass-market products. L'Oréal said the acquisition would extend its range in the US, complementing its presence at the high end of the market.

The purchase of Maybelline follows L'Oréal's acquisition in October of Jade, the German cosmetics company. The deal reflected a similar strategy of extending L'Oréal's presence.

It subsequently bought back 9 per cent of the company at prices below \$20.

Yesterday's deal confirms the Maybelline acquisition as one of the Wasserstein fund's most successful investments. Its record since being set up in the late 1980s with \$1bn capital has been patchy, including the disastrous acquisition of Gateway, the UK food retailer. However, Wasserstein said yesterday that the fund's US investments had achieved a compound return of 40 per cent a year.

L'Oréal, which will pay for Maybelline in cash, said it expected the acquisition to have a slightly positive impact on group profits next year. In the first nine months of 1995, Maybelline's net earnings rose 4 per cent to \$16m on sales up 6 per cent at US\$227m. In October, L'Oréal announced pre-tax profits up 5.5 per cent at US\$2.76bn (\$360m) for the first half of the year.



Bruce Wasserstein: paid \$300m for control of Maybelline in 1990

Ex-Barings chief to get ING consultancy fee

By Nicholas Denton in London

Mr Andrew Tuckey, deputy chairman of Barings when the UK merchant bank collapsed, is to receive at least £100,000 for his continuing employment as a consultant to the group's corporate finance arm.

Although Barings' business dealing in futures and options lost £830m through Mr Nick Leeson's unauthorised trading, the department advising on acquisitions has enjoyed record profits and its executives are expected to earn large 1995 bonuses.

Corporate financiers are expected to divide a pool of £10m-£15m after generating £5m in fees advising on transactions such as Wellcome's \$28m sale to Glaxo. Costs were about £20m.

Mr Tuckey, who resigned as deputy chairman after Barings was sold for £1 to Internationale Nederlanden Groep, the Dutch bank, will not directly share in the division's profits. But he will receive a stipend of £100,000 for his one-year consultancy contract, which expires in summer 1996. Any further payment to Mr Tuckey, to reflect his work on

Corporate financiers are expected to divide a pool of £10m-£15m after generating £5m in fees advising on transactions such as Wellcome's \$28m sale to Glaxo. Costs were about £20m.

Mr Tuckey did not collect his proposed 1994 bonus of £1.5m. However, although some other members of the Barings group board agreed collectively to waive bonuses, they are understood to have received payments from ING as well as their basic salary.

Remuneration of Barings executives, even when motivated by ING's desire to preserve the business it acquired, has irritated investors in Barings who lost as

a result of the bank's failure.

After the Barings collapse, Mr Tuckey did not collect his proposed 1994 bonus of £1.5m. However, although some other members of the Barings group board agreed collectively to waive bonuses, they are understood to have received payments from ING as well as their basic salary.

Mr Tuckey, who was chairman of Barings investment bank as well as deputy chairman of the group, is under investigation by the Securities and Futures Authority, the securities industry regulator, for the management responsibility he bore in the bank's collapse.

Among executives criticised by the Bank of England, Mr Tuckey is the sole survivor at ING Barings, the merged investment bank. Although many colleagues believe his employment is an embarrassment, his relationships with corporate clients are thought an asset.

Bank of England's criticism of Mr Tuckey in its report on Barings.

The Bank's board of banking supervision said, Mr Tuckey shared responsibility for Barings' failure to question the futures business being run by Mr Leeson in Singapore.

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Bank Zachodni	Honeywell
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	Scottish & Newcastle
	Stamps
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	Wallace Computer
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	Wisconsin Central

COMPANIES AND FINANCE

Granada asks Panel over Forte disposals

By Motoko Rich

Granada, the TV and leisure group which is in the midst of a £1.2bn hostile bid for Forte, has had discussions with the Takeover Panel about the hotel group's disposal programme.

The leisure group has asked the Takeover Panel to insist that Forte obtain shareholder approval for any disposal it makes during the bid period.

Granada appears to be concerned that the hotels and catering group remain intact during the bid. It is believed that it is particularly concerned about Forte's plans to sell the White Hart hotel chain for an estimated £100m. It is believed that the management of the chain is interested in buying the business.

The group has also announced its intention to sell

the Travelodge chain in the US. Earlier this year Forte said it hoped to sell the chain of 490 hotels at a healthy premium to the book value of \$150m (£94.5m). Under Takeover Panel rules, any disposal worth 10 per cent or more of net asset value must be approved by shareholders. However, Granada is believed to be concerned that some smaller disposals would undermine the value of the group, and therefore should also be cleared.

Source close to Forte, which has net assets of about £4bn, said Takeover Panel rules were clear that any transaction which had been in progress before the bid was launched could continue as planned, provided the deals were close to conclusion.

The group is believed to be considering total disposals worth about £400m.



Gerry Robinson: two weak companies is no answer

Terry Hopkins

GrandMet faces US challenge over vodka trademark

By Roderick Oram, Consumer Industries Editor

Grand Metropolitan's use of the Smirnoff trademark in the US, where it is the leading vodka brand, is to be challenged in court by descendants of Peter Smirnoff, supplier of vodka to the last Czar.

The family group led by Mr Boris Smirnoff, one of Peter's great grandsons, claimed GrandMet, the UK food and drinks company, had no right to the name or to claim a link with Peter's vodka business.

The family members filed suit in a Delaware court on Friday asking it to declare void GrandMet's US trademarks on Smirnoff.

The US action follows similar litigation in Russia by the Boris Smirnoff group. GrandMet lost some recent rounds in the Russian patent agency and in the southern city of Krasnodar.

GrandMet said it had the backing of a larger group of Smirnoff family members and it was confident in would prevail in court.

It said its Heublein subsidiary bought the rights to the Smirnoff name in 1933 from an American businessman who had acquired them shortly before from Vladimir Smirnoff, a son of Peter.

The Boris Smirnoff group said they have family documents showing that Vladimir had sold his share of the business to his eldest brothers in 1904.

Chiroscience in talks on technology joint ventures

By Motoko Rich

Chiroscience, the UK biotechnology company, is in discussions with leading generic drug makers about technology joint ventures, which could add as much as £50m to group sales by the year 2000.

The group believes that it can create a new market opportunity by adapting the technology it uses to purify existing drugs or develop new ones to help generic companies manufacture pharmaceutical products as they come off patent.

Chiroscience was originally known for its capabilities in purifying older drugs that were sold as a mixture of two, virtually identical, chemical structures. It separated the two structures in order to eliminate the one that produced more side effects or was less effective.

The group has also developed this "single isomer" technology for the invention of new drugs.

Dr John Padfield, chief executive, said many branded drug companies would try to extend their patents by filing "process patents" which could block generic groups from making the products.

He said Chiroscience could develop its unique technology to make the drugs under alternative processes which would be more cost effective. The group believes that the

biggest generic opportunity will be in the US, where healthcare reform will mandate further cost efficiency.

Chiroscience has already tested its technology on the development of (s)-naproxen, a generic form of an anti-inflammatory drug made by Roche, the Swiss drugs company.

Dr Padfield said the group could obtain about 10 per cent of the generic market with its technology.

He said revenues from generic ventures would be ploughed back into the group's drug development programme.

Last year technology services contributed £1.67m (£733,000) to sales of £2.11m (£756,500).

joint venture.

At Sotymskoye, Dana has a 30 per cent share in an operation working with Yukos, among others, on a field of 57.5m barrels.

Dana was previously a gold mining company listed in Ireland and was the subject of a reverse takeover last year by TM Oil, the company headed by Mr Cross and Mr Charles Smith, the chairman and former managing director of Chevron UK.

In Ireland, Dana's shares have been trading at about 10p and the company says it does not expect the shares to list in London at much of a discount.

Brokers to the issue are Henderon Crosthwaite and the Pathfinder prospectus is issued by Guinness Mahon.

Echo Bay rules out Cluff bid

By Geoff Dyer

Echo Bay Mines, one of North America's biggest gold and silver producers, has ruled itself out of a bidding war with Ashanti Goldfields for Cluff Resources, the UK-based company with gold mining operations in Africa.

On Thursday, Ghana-based Ashanti announced an £80m recommended paper and cash offer for Cluff, valuing the shares at 105p each.

Echo Bay, which bought a 5 per cent stake in Cluff in May at 80p per share, had been considered the most likely candidate to mount a higher bid. Mr Aly Cluff, the UK company's chairman, admitted that Cluff and Echo Bay had been in "constant discussions" since the summer.

Echo Bay said that it would not launch a bid, but was yet to decide whether to accept Ashanti's offer for its stake in Cluff. Analysts have not ruled out another bidder but now think it would be unlikely.

On Friday, Ashanti, in which Lonrho, the UK conglomerate, has a 41 per cent stake, and the Ghanaian government owns 29 per cent, purchased another 2.5m shares in Cluff at 105p, taking its stake to 29.9 per cent.

Ashanti's shares, which are traded in London and Accra, were up 75p on Friday at 205p. Shares in Cluff, which had a market capitalisation of £7m only two years ago, closed 2p higher at 105p.

Mr Cluff, who has a 2.5 per cent stake in the company plus options, stands to gain over £3m if the Ashanti offer is accepted.

Polish bank domestic share offer well met

By Christopher Bobinski in Warsaw

The Polish government's success with the domestic placement of shares in the state-owned Bank Gdanski has surprised a torpid domestic market and paved the way this week for the completion of the offer abroad through Global Depository Receipts (GDRs).

However, the price of 24 złotys per share, set after a bookbuilding exercise abroad by HSBC and Daimler-Benz, the joint lead managers for the offer, marked a reduction on the expected 27 to 30 złoty price range.

"This shows that Polish investors believe in their country's economy," said Mr Krzysztof Kalicki, deputy finance minister, following the announcement on Saturday that the domestic offer of 6.5m shares priced at 24 złotys had been 30 per cent over-subscribed.

Strong local demand forced the government to transfer shares from the foreign tranche, allowing domestic investors to purchase 7m shares worth a total of 168m złotys (£67.2m). This leaves 5.5m shares or 31 per cent of the bank's equity for investors abroad in Poland's first GDR placement.

However, local demand for the Bank Gdanski, which reported a 112m złoty net profit last year, was boosted by tax relief provisions which permitted people who bought up to 2,184 złoty-worth of shares to set the expense against income tax. Also a credit scheme allowed investors to defer payment for the shares. At the same time the offer saw significant purchases by local institutional investors.

"Some local institutions show their support for market methods and a protest against arbitrary moves by the government," said Mr Wilfried Schmidt from Daimler-Benz. He was referring to a recent government decision to transfer a 46 per cent residual Treasury-owned stake in the privatised Krakow-based Bank Przemysłowo Handlowy (BPH) to one of two large banking groups planned under a consolidation programme.

This would see the amalgamation of three state-owned regional banks in two groups headed by the state-owned Bank Handlowy and the PKO SA. A fifth of the shares in the two groups would be offered for sale in 1997.

The plan is designed to speed up the commercial bank privatisation programme which will have seen the disposal of the Bank Gdanski and the BPH this year. The sale of Warsaw's Powszechny Bank Kredytowy (PBK) is expected next year and the Bank Zachodni (BZ) in 1997.

Trading before Landis & Gyr bid faces probe

By Thierry Meyer

The Zurich Stock Exchange's

commission said on Friday it

was launching an internal

investigation into possible

insider trading before Elektro-

watt's offer.

ABB, the Swiss

Swedish industrial giant,

would not comment on any

counteroffer.

Landis & Gyr's largest shareholder, Unotec Holding, has

already sold its 25 per cent stake to Elektrowatt and the Gyr family has agreed to sell its 5 per cent stake.

In line with EU and Swiss rules, Elektrowatt cannot buy more shares until the offer closes and its conditions are met. It must be tendered at least 70 per cent of Landis & Gyr shares and EU cartel authorities must approve the deal.

Mr Oskar Romer, Elektrowatt's chief executive, has said the takeover would bring "venerable synergies". He intends to merge Staefa Control System, its building control subsidiary, with Landis & Gyr's Commercial Building division. Staefa Control System is the world's fourth-largest business in the sector, behind Honeywell and Johnson Controls of the US and Landis & Gyr.

Security and building control systems account for 45 per cent of Elektrowatt's \$167m turnover but for only 32 per cent of operating profits. Electricity accounts for 38 per cent of Elektrowatt's turnover and 73 per cent of operating profits.

Mr Beat Kunz, analyst at Bank Baer, said the move was "a sensible strategy" that will boost Elektrowatt's industrial side, with higher growth rates than can be achieved in the power generation side.

Salomon Inc adds three to its board

By Maggie Urry in New York

Salomon Inc, the parent of the Salomon Brothers investment bank, has added three new members to its board, each of whom has experience in the subsidiaries' most important areas of business. The appointments take effect from February 7 next year.

The group has had relatively few executive directors on the holding company board. It is adding Mr John Haseline, who is a member of the Salomon Brothers operating committee and is in charge of the firm's global fixed income activity.

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The plan is designed to speed up the commercial bank privatisation programme

COMPANIES AND FINANCE

Microsoft stakes a claim in the Internet goldrush

The group is redirecting a substantial portion of its resources to development of Internet software

The sleeping giant has awokened," said Bill Gates, chairman of Microsoft, the world's largest software group, as he announced a radical change of strategy aimed at overtaking competitors in the burgeoning market for Internet software.

In spite of its domination of the personal computer software business, with a greater than 80 per cent share of many market segments, Microsoft has, until now, demonstrated limited interest in the Internet.

As tens of millions of PC users linked their computers to the global web of computer networks over the past two years, newcomers such as Netscape Communications established themselves as the leading suppliers of Internet software without direct competition from the PC software industry leader.

No longer. By embracing Internet standards, licensing technology from rivals and incorporating Internet access software in many of its products, Microsoft aims to become the Internet software market leader and standards setter.

"We see one of our key roles as providing integration and continuity between the PC and the Internet," said Mr Gates, "so customers can leverage their existing investments in PCs and take advantage of new investments in the Internet."

While declining to directly acknowledge that Microsoft was slow to recognise the

significance of the Internet, Mr Gates said he is now redirecting a substantial portion of Microsoft's resources to development of Internet software.

Announcing technology licensing agreements with rivals Sun Microsystems and Oracle, and demonstrating products that are to be introduced over the next 12 months, Microsoft

Industry analysts viewed Microsoft's plans as a serious challenge to start-up companies that have blazed the trail in developing software for the Internet

is staking its claim in what Mr Gates called the "Internet goldrush".

Microsoft would "support and enhance" the Internet by making it an integral part of personal computing, Mr Gates said. He demonstrated, for example, an add-on product designed to work with Windows 95, the company's flagship PC operating system, which will enable PC users to access information on the Internet as easily as calling up

a file from their own office computer system.

The software, which will be made available free of charge to Windows 95 users next year, would also enable two PC users to collaborate, via the Internet.

It might be used, for example, by people wanting to work together to create or edit a document, or to update a budget. Another feature of the program will provide press-button telephone calls, for voice or data, over the Internet.

A future version of Windows, expected in 1997, would provide an Internet-style user interface. In other words, Windows will take on the appearance of an Internet browser.

Mr Gates said Microsoft would also incorporate Internet access software in other programs, such as its widely used suite of business applications, called Office.

The Microsoft Network, a proprietary online service launched in August, will be realigned. It will become an Internet "community", offering subscribers exclusive, free or discounted access to information resources on the Internet.

These announcements represent a climbdown for Microsoft, which until now has been able to impose its own proprietary standards in the personal computer industry.

Nonetheless, industry analysts viewed Microsoft's plans as a serious challenge to



Bill Gates: aiming to make Microsoft the standards setter

start-up companies that have blazed the trail in developing software for the Internet. Ultimately, however, Microsoft is expected to expand interest in the Internet, to the benefit of all market participants.

Moreover, Microsoft's moves to adopt Internet technology developed by rivals - by licensing software from Oracle and

On the eve of the announcement of its new Internet strategy in Seattle on Thursday, Microsoft's executives were still trying to hammer out a deal with Sun Microsystems to license Sun's Java programming language, which enables software developers to create small application programs, or "applets" that Internet users can download and use as needed, instead of purchasing application programs from Microsoft and other PC software developers.

"This is an endorsement of Java as the de facto Internet programming language," said Mr Geoff Beyer of Sun Micro-

systems.

"Microsoft has now recogni-

zed that the way to compete

[in Internet software] is to

adopt standards and use them

to address the widest possible

constituency."

Few in the computer industry can, however, afford to

gloss over Microsoft's change

of tactics. The company has

long triumphed by being a

smart follower, rather than a

trend-setter.

In PC operating systems, for

example, Microsoft's Windows

enabled PC users to "point and

click" to select an application

program long after Apple Com-

puter had pioneered the con-

cept of "graphical user inter-

faces".

Louise Kehoe
and Paul Taylor

Munich Re chief foresees at least maintained profits

By Andrew Fisher in Frankfurt

Munich Reinsurance, the world's largest reinsurance company, expects profits this year to be at least as high as in 1994-95, with premium income likely to stay flat as a result of its more selective business policy.

Mr Hans-Jürgen Schinzler, chairman of the annual meeting that the financial impact of natural and other

disasters was below that of the previous year. He said Munich Re would continue its profit-oriented approach to reinsurance and was prepared to accept the restricted growth opportunities because profitability would be strengthened.

"However, we still aim to be the leading reinsurer in as many potentially profitable fields as possible," he added. Although it was number one in

most Asian markets, for example, it was stepping up its efforts there and putting more underwriting authority with local offices.

The company recently reported a net profit of DM285m (\$224m) for the year to June 30 1995, a rise of 8 per cent. The dividend was raised from DM12 to DM13.50 a share. Gross premium income totalled DM29bn, a marginal increase on the year before.

Mr Schinzler said the strength of the D-Mark was holding back growth this year, with reinsurance premiums expected to be lower than in 1994-95.

On the life assurance side, he said Munich Re's subsidiaries were suffering from people's more limited spending power. He expected slower growth in this sector than last year.

The stagnation in real income was also holding back premium income

from property and casualty insurance, where growth would thus also be behind that of 1994-95. Overall, the underwriting profit should show a slight increase.

Munich Re's investment portfolio, which rose last year by 8 per cent to DM11bn, would grow further, he said. The company has just completed a DM580m rights issue at a deeply discounted share price.

NEWS DIGEST

Setback for Lloyd's fundraising efforts

Efforts to raise extra funds for supporting insurance underwriting at Lloyd's of London next year have been set back by the failure of a plan to raise up to \$50m (\$31.6m) from Dutch investors. The failure of the Tulip Fund, launched in the summer, was blamed by its backers, LRG Ceter Allen, a Lloyd's agency, on problems in obtaining an investment licence from the Dutch central bank in time to meet Lloyd's deadlines. The scheme had raised only £5m. LRG Ceter Allen said potential investors had been deterred by uncertainties surrounding Lloyd's.

The news confirms expectations at Lloyd's that little extra capital is likely to come forward for underwriting next year from the new generation of investment vehicles trading on limited liability. *Ralph Atkins, Insurance Correspondent*

German consortium buys Matra

A German consortium of RWE Energie, Europe's largest privately-owned utility, and Energie-Versorgung Schwaben plans to invest DM25m (\$2.07m) in Hungary's Matra power plant. It acquired a 60 per cent stake in the plant as well as stakes in two of the country's six electricity distribution companies last Friday for an undisclosed sum. The companies were sold as part of Hungary's sweeping energy sector privatisations.

Buyers have been found for minority stakes in eight out of 14 electricity companies and for stakes of 50 per cent plus one share in four regional gas distribution companies and for a 39 per cent holding in the Budapest GDC. One regional GDC goes to a second round of bidding today. MVM, the core electricity company, which owns the national grid and the Paks nuclear plant, received a sole and qualified bid due to its nuclear component. The authorities are continuing talks with strategic investors with a view to holding new tenders for MVM and the generation companies. *Virginia Marsh, Budapest*

Electrolux disputes tax demand

Electrolux, the world's leading maker of household appliances, is contesting a decision by the Stockholm tax authorities to increase its tax bill for 1993 by SKr1.255m (\$52.6m). The dispute relates to the Swedish group's liquidation of a Dutch subsidiary in 1993, which produced a surplus as proceeds were larger than the cost of buying the unit. Electrolux treated the surplus as a gain on a share divestment. The tax authorities argue the acquisition cost of the shares should be reduced by SKr1.25m as this was the amount of tax-exempt dividends Electrolux received from the subsidiary over a 10 to 15-year period. *Christopher Brown-Burnes, Stockholm*

FT/S&P Actuaries Indices

The FT/S&P Actuaries World Index Policy Committee decided at its quarterly meeting on December 8 that BTR Nytex should be deleted from the FT/S&P AWI Australia Index with effect from December 12. The Committee also decided that National Grid should be added to the FT/S&P AWI UK Index with effect from January 1 1996. Year-end changes to the indices will be announced shortly.

COMPAGNIE IBM FRANCE

"société anonyme" with a "Directoire" and a supervisory board with share capital of 3,122,712,520 France registered offices: Tour Septentrion, 20 avenue André Probst, la défense 4 92400 COURBEVOIE RCS Nanterre B 522 118 465

NOTICE OF PREPAYMENT OF ALL OUTSTANDING IBM FRANCE BONDS EXCHANGEABLE FOR INTERNATIONAL BUSINESS MACHINES CORPORATION (IBM CORP.) COMMON SHARES

EXCHANGEABLE BONDS 5.75 % ISSUED IN 1993

(Offering circulars n° 93-198 and n°93-428 registered by the "Commission des Opérations de Bourse" respectively on April 30, 1993 and on September 17, 1993 and BALO of June 25, 1993 and of October 29, 1993)

Prepayment at the sole discretion of the issuer

Compagnie IBM FRANCE reminds the holders of bonds IBM FRANCE exchangeable for IBM Corp. common shares (hereinafter the "Bonds") that its supervisory board, using the option given to the issuer in paragraph 1.C.9.b) of the Offering Circular of prepaying in cash, at par value, all outstanding Bonds, gave the Directoire at its meeting on October 17, 1995, all powers to prepay the Bonds. At its meeting on October 26, 1995, the Directoire decided to prepay in cash all outstanding Bonds on January 4, 1996.

This decision was announced on November 15, 1995, by public notice in the Official Gazette ("Journal Officiel") of the Republic of France and in the national and international financial trade press ("Les Echos" and the "Financial Times") and was taken after determination that the product of the Exchange Ratio in effect at the prepayment date (being 1.075) and the arithmetic average of the opening market price of IBM Corp. common stock on the Paris Stock Exchange over a period of twenty consecutive trading days within the forty trading days, 15 business days preceding the date of publication of the notice of prepayment in the Journal Officiel, exceeds FF. 461.50, being 130 % of the par value of the Bonds.

The conditions of this prepayment are as follows:

- prepayment date : January 4, 1996
- prepayment price : FF. 355 per Bond
- interest payable accrued interest from January 1st, 1996 to January 4, 1996 will be paid in the amount of FF. 0.22, it being specified that the coupon for 1995 will be paid on its settlement date, January 1st, 1996.

The paying and other financial service agent for the Bonds is Messrs. Lazard Frères et Cie, 121 Boulevard Haussmann, 75008 Paris, France.

Option for Bonds exchanged for IBM Corp. common shares

It should be noted that any holder of a Bond, other than a "US person" as such term is defined in the Securities Act of 1933 of the United States of America (see below, Restrictions relating to "US Persons") has the right to have such Bond exchanged for IBM Corp. common shares until the sixth day preceding the prepayment date, thus until December 29, 1995 at the latest, pursuant to the terms, conditions and procedures set forth in the Offering Circular, at an exchange ratio of 1.075 IBM Corp. common share for one Bond with a par value of FF. 355, it being understood that accrued and unpaid interest on the Bonds from January 1st, 1995, shall not be paid on Bonds so exchanged in conformity with paragraph 1.C.20.2 of the Offering Circular.

Bonds may not be exchanged unless a notice of exchange, accompanied by the transfer of the corresponding Bonds is provided.

Notices of exchange accompanied by transfer of the corresponding Bonds shall be submitted to the head offices or branches of the institutions designated by the bondholders and shall be received not later than December 29, 1995 by Messrs. Lazard Frères et Cie, 121 Boulevard Haussmann, 75008 Paris (Fax: 33 1 45 13 06 80).

From and after the Exchange Date, the IBM Corp. common shares delivered upon exchange shall entitle the holders to receive the same dividend as that distributed to other holders of registered shares of IBM Corp. common stock and shall be transferable beginning at the date on which they are recorded in the accounts. Specifically, IBM Corp. common shares received in exchange for the Bonds shall entitle their holders to dividends decided on a quarterly basis by the Board of Directors of IBM Corp. provided the Exchange Date (as defined in the Offering Circular) precedes the record date for the determination of shareholders entitled to receive such distribution.

Restrictions relating to "US Persons"

A reminder is made to the effect that the Bonds may not be exchanged by or on behalf of any "US person" as such term is used in the Securities Act of 1933 of the United States of America.

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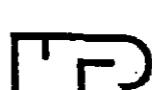
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FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / Philip Coggan

Emerging markets time may return

Emerging markets, who needs them? From being everyone's favourite investment sector in 1993, the stock markets of the developing countries have taken a back seat to this year's real growth story - corporate America.

Any global investor with a substantial exposure to the emerging markets is likely to have underperformed in 1995. In dollar terms, the IFC Composite investible index has fallen 12.4 per cent so far this year.

The decline has been widespread. While Latin America's problems are well known, the IFC index for the region is 20.2 per cent lower in dollar terms. Asian markets also suffered, recording a 8.9 per cent decline.

All this leaves emerging markets a long way behind the 14 per cent rise in the FT-A World Index, let alone the 34 per cent jump in the S&P 500.

The strength of the US market has been one reason behind the failure of the emerging markets to advance. The sector's sharp rise in 1993 owed much to US liquidity, at a time when share prices on Wall Street were moribund. This year, US investors have had so much excitement from their domestic market that they have little incentive to look overseas.

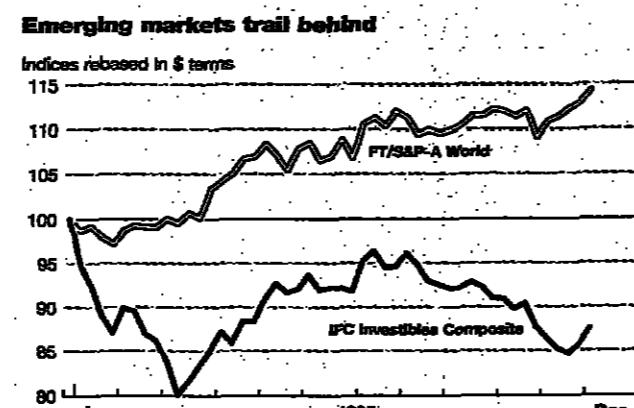
Memories of late 1994, when

the Mexican devaluation set off a chain reaction among emerging markets, are still fresh in investors' minds. This is particularly so in the US, which saw its southern neighbour as the premier emerging market.

"New cash flow has not been directed to Latin America in 1995 and specialist fund managers have found it very difficult to beat the indices," said Mr Andrew Macdonald, head of Latin American sales at Kleinwort Benson.

It is tempting to see the 1993-94 episode as yet another example of how investors have been lured by the promise of Latin America, only to be deeply disappointed. Earlier cases include Barings in the late 19th century, bondholders in the inter-war years, and international banks in the 1970s and 1980s.

Those emerging investors who have switched from Latin America to Asia, on the grounds that countries in the latter continent tend to have sounder trade positions, higher savings rates and more dependable currencies, have been



frustrated. A series of individual problems, from corruption in south Korea to sabre-rattling by China over Taiwan, hit some markets. More generally, there was evidence of overheating in the region, particularly in Thailand and Malaysia.

The Mexican episode has made investors more rigorous in evaluating country risk, rather than blindly investing

in anything with the emerging markets label. Mr Nigel Rendell, head of emerging markets strategy at broker James Capel, said: "1994 showed that economic fundamentals do matter. The markets that fell the most were the ones with the most unstable economies. People haven't abandoned emerging markets, they've become more selective."

But Mr Arnab Banerji, chief investment officer of Foreign & Colonial Emerging Markets in

Total return in local currency to 8/12/95

	% change over period				Indy.	UK
	US	Japan	Germany	France		
Cash	0.11	0.01	0.08	0.11	0.20	0.13
Week	0.48	0.04	0.34	0.53	0.86	0.56
Month	7.38	2.69	5.69	6.31	9.93	7.78
Year	15.04	13.11	14.48	13.05	15.25	14.65
Bonds 3-5 year						
Week	0.09	0.01	-0.18	0.64	0.64	0.31
Month	1.21	1.03	1.16	1.95	1.94	2.09
Year	15.04	13.11	14.48	13.05	15.25	14.65
Bonds 7-10 year						
Week	0.26	0.38	0.57	0.75	1.44	0.62
Month	1.94	1.39	2.51	2.05	2.05	2.41
Year	21.50	17.16	17.13	15.49	17.26	17.19
Equities						
Week	1.5	3.8	1.4	0.8	1.7	0.5
Month	5.0	7.4	4.4	-0.3	5.8	3.4
Year	38.9	2.3	9.7	-1.2	3.9	2.43

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WORLD BOND MARKETS: This Week

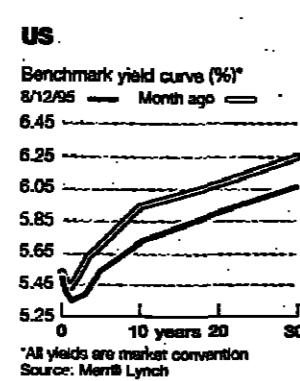
NEW YORK

Tony Jackson

The bond market spent last week on the verge of breaking through, and staying below, the 6 per cent yield barrier for the first time in two years. Whether it succeeds this week will depend on how expectations develop for a further Fed rate cut in the following week. The market is implicitly expecting one but signs of tightening in the labour market last week might cause slight nervousness.

As Salomon Brothers points out, when bond yields were last at 6 per cent the economic backdrop was very difficult. Then, the economy was accelerating; now it is apparently achieving a soft landing. Most importantly, long-term expectations for inflation are flat, a percentage point lower now than then.

However, there seems little pressure on the Fed to ease just before Christmas given uncertainties over the budget. It might seem prudent to wait until the FOMC's next meeting in January, by which time



*All yields are market convention

Source: Merrill Lynch

LONDON

Conner Middelmann

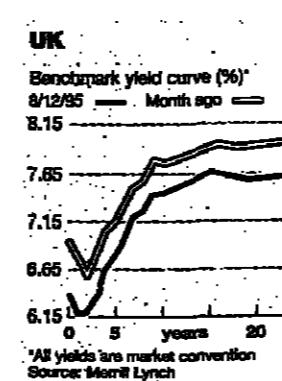
UK gilts are likely to continue being influenced by the US Treasuries market next week, while a flurry of releases – including producer prices, jobs and average earnings data, retail sales figures, retail prices, and the CBI monthly trends survey – will set the scene domestically.

"Most of the data should be supportive, confirming the current slow-growth and low-inflation picture," said Mr Stuart Thomson of Nikko Europe.

After rallying early last week, gilts weakened towards the end on waning hopes of a UK base rate cut and Treasuries' decline.

"Absolute levels are still being determined by international conditions, and gilts will need bullish earnings, sales and retail price data to outperform any further," said Mr Andrew Roberts of Union Bank of Switzerland.

Ten-year gilts' yield premium over German bonds had shrunk to 149 basis points



*All yields are market convention

Source: Merrill Lynch

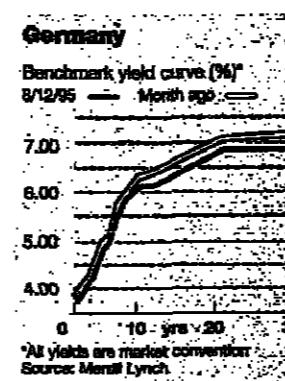
FRANKFURT

Andrew Fisher

Next Thursday will be a red-letter day for watchers of the Bundesbank, which will announce its money supply target for 1996 after a year in which M3 growth has been distinctly sluggish. The occasion will be given added piquancy by continuing speculation about a further cut in interest rates, fuelled by last week's evidence of a faltering economy.

As far as M3 goes, the central bank is expected to keep the target range similar to that of 1995, namely between 4 and 6 per cent. Some economists think the range could be slightly higher, at perhaps 4.5 to 6.5 per cent, or even 5 to 7 per cent. Either way, the Bundesbank will reaffirm its commitment to M3 as the centrepiece of its stability-oriented monetary policies.

The prospect of an interest rate cut has clearly been increased by the latest data, with a stagnation in gross domestic product in the third



*All yields are market convention

Source: Merrill Lynch

TOKYO

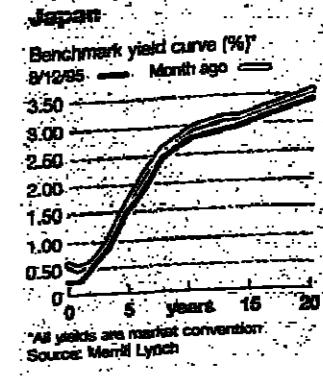
Emiko Terazone

Bond prices are expected to fluctuate within a range this week because of profit-taking by financial institutions and purchases prompted by hopes of an imminent cut in the discount rate and continued buying by life insurers.

Banks and agricultural co-operatives have continued to raise funds to cope with bad loans at the jissen, or housing loan companies, but market participants expect the bond market to be supported by continued buying by the Bank of Japan and life assurance companies.

Meanwhile, coupons on bank debentures issued by long-term credit banks this week are expected to vary for the first time in 40 years. Coupons for debentures issued by the Industrial Bank of Japan, Long-Term Credit Bank, and Nippon Credit Bank, have been held at the same level in spite of differences in the banks' credit ratings.

Yields on bond debentures started to deviate from each



*All yields are market convention

Source: Merrill Lynch

other in the early 1990s on the secondary markets following reports of mounting bad loan problems at LTCB and NCB. Although the banks maintained the same coupons, the yields on debentures issued by LTCB and NCB have risen above that of the IBJ.

Yields on LTCB's debentures are trading 20 basis points above that of the IBJ's paper, while NCB's debentures were trading at yields 90 points above the IBJ's last week.

Syndicated loans

Acquisition financing keeps bankers busy

Activity in the syndicated loans market shows little sign of abating, although the number of new deals is likely to slow ahead of the year-end.

"The market seems to be a lot busier than this time last year," said one banker. "In 1994, we were doing mainly straightforward corporate revolvers and refinancings, which slowed down before year-end, but this year we're doing a lot of situational financings related to acquisitions which is keeping us going at full steam."

Another crop of acquisition-related financing facilities was launched last week.

Welsh Water launched a £750m five-year revolving facility to partially finance its revised £872m offer for the South Wales Electricity Company. NatWest Markets and Kleinwort Benson, the UK merchant bank recently acquired by Germany's Dresdner Bank, are acting as arrangers and ABN Amro Bank and Sanwa Bank are co-arrangers.

Pricing details are not yet available, but market talk suggests the facility is likely to be

priced close to the 22.5 basis point margin paid in previous power deals. The loan is expected to go into general syndication in the new year.

Racial Electronics, which last week announced an agreed bid for BR Telecommunications, British Rail's telecoms business, is putting in place a £240m three-year revolving facility to fund the £132m acquisition and to refinance existing bilateral facilities.

The loan is being arranged by BZW and NatWest Markets and jointly underwritten by their respective parent banks, Barclays and National Westminster. Pricing details were not available. The deal is set to go into general syndication early in the new year.

Elsewhere, the £200m acquisition by Ashanti Goldfields, the Ghanaian gold mining group, of Cliff Resources, announced last week, is to be partially financed by a syndicated loan arranged by BZW. Details on the size and terms of the offering are yet to emerge. The transaction is to go to a wider group of banks once the deal goes unconditional.

The £1.5bn three-year revolving credit for North West Water to fund its £1.5bn acquisition of Norweb closed on Friday after attracting more than £1.6bn of bids from a wide range of banks. The loan has been arranged by Deutsche Bank, Dresdner Kleinwort Benson, Midland Bank, Société Générale and Sumitomo Bank.

A £300m five-year revolving credit facility was launched last week for Greenalls, the UK pub and hotel group, for general corporate purposes, including the refinancing of a £135m facility launched in November 1993 and the partial financing of the acquisition of the Boddington Group.

Greenalls is paying a margin of 22.5 basis points over Libor and a commitment fee of 10 basis points. NatWest is arranging and agent.

Emerging-market borrowers have also been keeping bankers busy. In Thailand, the International Finance Corporation, the investment arm of the World Bank, on Friday agreed a \$290m package for the National and Securities Public Company.

The package comprises a \$30m six-year term loan and a subscription to \$10m worth of convertible debentures for the corporation's own account, and a \$250m syndicated three-year loan – the second-largest in the IFC's history.

It provides the longest maturity financing yet attained by IFC and is structured as a revolving facility. The interest margin on the \$250m loan is 75 basis points over the London interbank offered rate.

The syndication involves 38 banks from 17 countries, many of which are assuming Thai exposure for the first time. The IFC, Bank of America, Société Générale and the Bank of Nova Scotia have together arranged the transaction.

IFC will use the funds for on-lending to small and medium-sized enterprises (SMEs) in Thailand, which play an important role in supporting export industries such as motor vehicles, electronics and machinery. Some 60 SMEs are expected to receive loans under the project, the IFC said.

The National Bank of Romania last week signed a

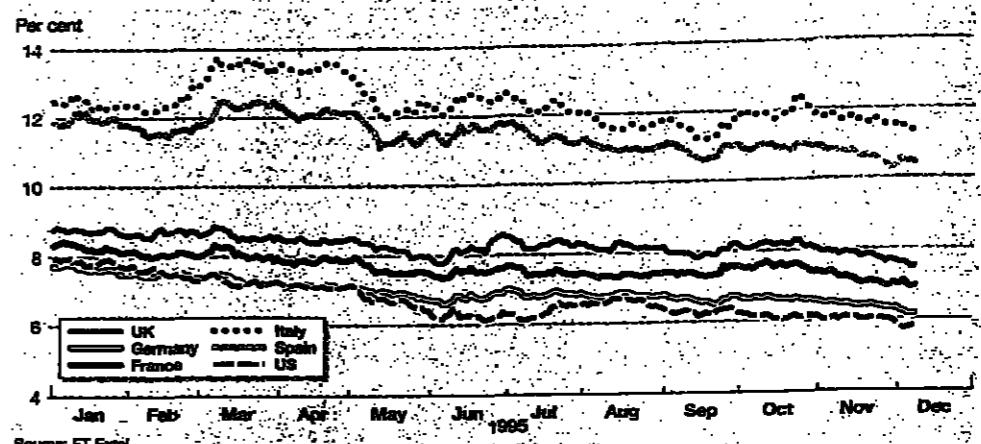
\$110m 18-month syndicated loan arranged by Citibank – the country's second financing since its return to the international capital market in May after a 15-year absence. The interest margin on the facility, which was increased from the initially proposed 75m size, is Libor plus 225 basis points.

Romania's central bank is considering raising up to \$1bn from international capital markets by next May, Reuters reported. The National Bank governor Mugur Isarescu as saying on Friday. The success of its latest loan meant Romania now had credibility in world markets, he said, adding that funding would be "not only syndicated loans but certainly also bond issues... as we want to join the international markets in a professional manner".

Last month, Romania's parliament passed a law allowing the National Bank to raise up to \$1bn in medium and long-term loans next year, ending a restriction which limited borrowing to the short term.

Conner Middelmann

10-year benchmark bond yields



Source: FT Eikon

	UK	Germany	France	US
Jan	12.0	11.5	11.5	11.5
Feb	12.0	11.5	11.5	11.5
Mar	12.0	11.5	11.5	11.5
Apr	12.0	11.5	11.5	11.5
May	12.0	11.5	11.5	11.5
Jun	12.0	11.5	11.5	11.5
Jul	12.0	11.5	11.5	11.5
Aug	12.0	11.5	11.5	11.5
Sep	12.0	11.5	11.5	11.5
Oct	12.0	11.5	11.5	11.5
Nov	12.0	11.5	11.5	11.5
Dec	12.0	11.5	11.5	11.5

Source: FT Eikon

	USA	Germany	France	Italy	UK
Discount	0.25	0.50	8.10	8.00	6.75
Oversight	0.25	0.50	5.12	10.39	7.75
Three month	0.25	0.50	5.02	5.02	6.25
One year	0.25	0.50	5.00	10.24	8.19
Five year	0.25	0.50	6.00	10.22	6.87
Ten year	0.25	0.50	6.70	11.24	7.47

Source: FT Eikon

	US	Germany	France	Italy	UK
Open	120.05	120.17	+0.04	121.08	119.25
Support	120.00	120.12	+0.02	120.31	119.76
Change	+0.05	+0.05	+0.04	+0.03	+0.51
High	120.20	120.22	+0.02	120.16	119.05
Low	119.15	119.22	+0.04	119.05	114.79
Est. vol.	102,437	312,105	2,276	14,739	-
Open int.	-	-	-	-	-

Source: FT Eikon

	US	Germany	France	Italy	UK
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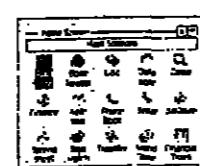
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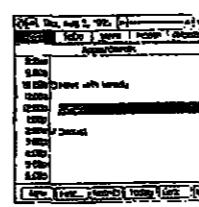
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EQUITY MARKETS: This Week

NEW YORK

Lisa Bransten

Data set to add to rate speculation

Stocks may find themselves on another roller-coaster ride this week as investors make their final decisions about the course of monetary policy before next week's meeting of the Federal Reserve's Open Market Committee.

On Friday, the market initially rallied along with bonds after weakness in the November employment figures raised hopes that the FOMC would cut rates on December 12. But by the close both markets were lower as Mr Alan Blinder, vice-chairman of the Fed, suggested the markets were overreacting to the weak economic data.

This week brings a spate of economic data that should lead to more speculation about what the Fed will do, and any big moves on the market could be exacerbated by the fact that options and futures on shares and share indices expire on Friday in what is known as a "triple witching".

OTHER MARKETS

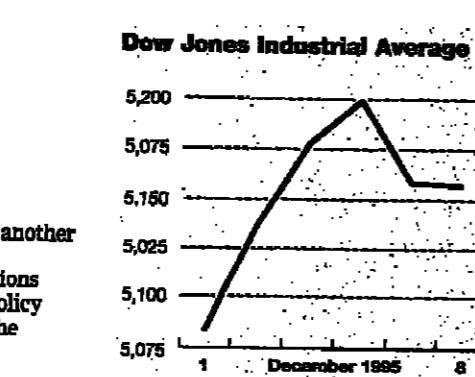
AMSTERDAM

The brief knock given to Dutch share prices by Neillloyd and other cyclical stocks has not stopped the Amsterdam market from reaching new highs - or ABN Azur, the big Dutch bank, from raising its forecasts for the Amsterdam market for the rest of the year, writes Ronald van de Krol.

The upbeat assessment comes as the Dutch market takes stock of the now-concluded third-quarter reporting season. Although some retail companies have been downgraded by analysts, most Dutch companies put in good performances.

The Amsterdam-EOE index (AEX), which hit a record high of 491.98 on Wednesday, is now forecast to end the year at 490 points, compared with ABN Amro's (and other's) earlier expectations of a 460 point finish. The bank's prediction for mid-1996 has also been increased to 515 points from a previous 490.

"This upgrade is the result of the fact that the positive effect of lower bond yields should outweigh the negative impact of reduced earnings and dividend forecasts," it said. The bank added that earnings growth for the market as a



LONDON

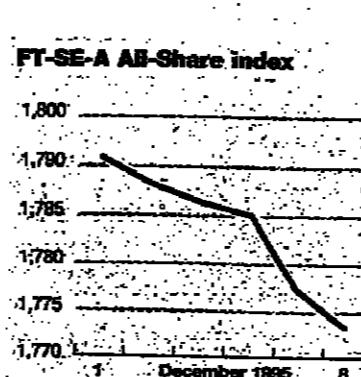
Philip Coggan

Bank meeting will be focus of attention

The coming fortnight is likely to be critical for the London stock market as decisions on interest rates are taken around the world. In the UK, attention will be focused on Wednesday's meeting between Mr Kenneth Clarke, the chancellor of the exchequer, and Mr Eddie George, the governor of the Bank of England. Hopes are high for a cut of at least a quarter percentage point in base rates, although the governor last week warned the chancellor not to take risks with rates.

With the Bundesbank and the Federal Reserve meeting within a week of the governor and chancellor, monetary policy could be eased world-wide. Cuts in rates in Japan, the US and Germany have done much to aid the rally in shares and bonds this year.

The UK market need the stimulus as the FT-SE 100 index, which has climbed 700 points since March, appeared to be running out of steam



last week. The leading index has surpassed the end-year targets set by most forecasters at the start of 1995, and investors may be tempted to lock in their profits.

However, December and January are often good months for stock markets and shares are still receiving strong support from gilts, with the yield on the 10-year benchmark issue reaching its lowest level for the year last week.

The main corporate development of the week will be the start of trading in National Grid, which has immediately leapt into the FT-SE 100.

whole would remain "quite strong" in 1996 and 1997.

ABN Amro recommended an overwater position in media, services, energy, and selected financial stocks.

FRANKFURT

Information from MAN, RWE and Siemens will provide the focus this week and, says UBS, the market is expected to edge up further, fuelled by rate cut speculation ahead of the last Bundesbank meeting of the year on Thursday.

MAN holds its annual meeting tomorrow and, says UBS, profits in the current year will be boosted by lower losses at the MAN Roland printing machinery division.

But in its other main divisions it sees little hope for turnover growth and margin expansion.

At RWE's annual meeting on Thursday, shareholders will be asked to approve a 10-for-1 scrip issue for all common, registered and preference shares. Siemens also holds its balance sheet press conference on Thursday.

MILAN

A regional court is expected this week to examine an appeal by Mediobanca, the merchant bank, over the Consob ban

watchdog's ruling that it must launch a public offer for more shares in Ferruzzi Finanziaria.

Lawyers say that Wednesday is the first possible date for the hearing and the court is almost certain to meet then.

Mediobanca is expected to argue that it is not obliged to launch any offer for the agrochemical holding company, in which it bought 10.7 per cent of the shares in October. Cousob has ruled that Mediobanca must buy a similar number of shares at a similar share price of L1.580. The 10.7 per cent was diluted slightly by subsequent changes to Ferruzzi's shareholding structure.

MADRID

Investors will be hoping for a pick up in activity after last week's performance, which was reined in by holidays on Wednesday and Friday.

Among supporters, Mr Francois Langlade-Demoyen at CS First Boston last week upgraded the Spanish market to overweight on the view that falling interest rates across Europe should have a greater impact on the periphery than the core; and that Spanish interest rates and the currency should continue to rally.

The stock market, heavily weighted towards interest rate sensitive financials and utilities, was set to benefit.

"While Spain is still struggling with fiscal laxity, we believe that fundamentals - inflation, political risk and the budget problems - are improving and should help interest rates to fall further," he said.

JOHANNESBURG

After last week's sterling performance that saw the market spurred upwards by sharply higher industrial, December futures contracts reach close-out on Friday, writes Mark Ashurst.

Prices dipped briefly below last spot last week after a bearish month, but rallied quickly as the Dow rose and dealers saw the opportunity for arbitrage.

While most contracts would be rolled over to March, all eyes are on the Dow and dealers said several institutions were poised for a little bit of a sell-off if the opportunity arose.

However, the futures market shadows Wall Street, and dealers are jittery about Wall Street's "ultimate high" and threats to veto the US budget deficit by President Clinton.

Overall, trading is expected to be cautious with little movement, although more

pesimistic players short on stock and long on cash have been surprised by encouraging figures for the third quarter.

"In that climate, demand is insatiable," said David Shapiro at Frankel Pollack Vin Divine. Any overhang after the close-out would be absorbed quickly.

HONG KONG

The market, which lost some of its upwards momentum last week after developer

Henderson Land made a private placement to raise HK\$2.2m, is expected to continue moving cautiously upwards into the new year.

Brokers reckon the Hang Seng index, which closed on Friday at 9,863.61, is likely to make a fresh assault on the 10,000 mark this week.

The catalyst could again be speculation over a cut in interest rates ahead of next Tuesday's meeting of the US Federal Open Market Committee. However, analysts' expectations of an immediate cut in interest rates are receding. Moreover, concerns that more blue chips might take advantage of stronger sentiment to tap the market will remain in the foreground.

Overall, trading is expected to be cautious with little movement, although more

pesimistic players short on stock and long on cash have been surprised by encouraging figures for the third quarter.

"In that climate, demand is insatiable," said David Shapiro at Frankel Pollack Vin Divine. Any overhang after the close-out would be absorbed quickly.

If book-building is used, they say, the vendor stands to get the best possible price for its shares as well as ensuring a good reception from investors. In their view, the vendor would get less money from a traditionally underwritten deal because, since the banks own capital was at risk, they would fix the price conservatively.

Second, by matching investors' demand and the supply of shares, the shares are less likely to rise or fall significantly.

Although the BP deal was larger than Nutricia's in mone

International offerings

Speed of BP sell-off sparks debate on marketing routes

The speed and efficiency of the UK government's sale of its remaining stake in British Petroleum (BP) through a "bought deal" last week has sparked a debate about whether the time-consuming book-building process really is the best way to execute equity offerings.

The government raised just over £500m by selling its stake in BP to SBC Warburg, which then sold the shares on at a higher price to institutional investors. The process took less than 24 hours from the competitive auction on Monday evening to the announcement by SBC Warburg the following afternoon that the shares had been placed.

Another advantage which book-builders talk less about is that a book-built offering is less risky than a traditionally underwritten deal because they only have to commit their capital once they have a pretty good idea about the likely demand and price investors are prepared to pay.

Looking back on the many offerings over the past year, it appears that book-building works best for smaller deals rather than the big privatisations, where investors require a greater degree of commitment from the banks and greater certainty early on about the final size and price of the deal.

In the recent disposal of Unigate's shares in Nutricia, the Dutch baby food company, book-building was deemed to be the most appropriate route because the company was not well-known outside Holland so that extra time was needed to present its investment case to international investors.

Second, since the offering was set to greatly increase the free-float of the company, the shares actually rose during the process as investors welcomed the greater liquidity in the shares. Unigate would not have received that benefit had it sold the shares through a pre-determined price.

Since the US investment banks pioneered the use of book-building outside their domestic market, they are naturally protective about this method when its merits are brought into question.

If book-building is used, they say, the vendor stands to get the best possible price for its shares as well as ensuring a good reception from investors. In their view, the vendor would get less money from a traditionally underwritten deal because, since the banks own capital was at risk, they would fix the price conservatively.

Second, by matching investors' demand and the supply of shares, the shares are less likely to rise or fall significantly.

tary terms, it was only a 1.16 per cent stake in a company whose shares were extremely liquid and which was a core holding for many institutions. Therefore, the bank would have felt reasonably confident it could sell the shares quickly.

But a bought deal would not have been appropriate in placing Unigate's 29.5 per cent stake in Nutricia because the shares were neither liquid nor widely held. Therefore, it was necessary to take the time to build up a book of demand.

Although there are many examples of successful book-building exercises, the big privatisations this year, especially those with cumbersome syndicates and inflexible structures, have shown that the method has favoured the buyers.

Banks are partly to blame for allowing institutions to get the upper hand because the message from many of them is that the potential size and price of a deal is up to them.

They have learnt to manipulate the book-building process to drive the price down. The main way they do this is by refraining from placing their orders until the very last minute or they make very big orders at a lower end of the price range in the hope they will bring the final price down.

For the more genuine investors, book-building has failed to provide the certainty on size and price which is the main attraction of a traditionally underwritten deal.

Now that several UK investment banks have been swallowed up by Europe's big commercial banks, their parents' balance sheets will be marketed actively as the tool which will provide the certainty lacking in recent privatisations.

Since the US investment banks cannot match this "cheque-book" strategy, they will need to modify the book-building formula to avoid losing business. The most pressing need is to shorten the whole process, but bankers also expect other developments such as slimmer syndicates and less regionalisation.

Antonia Sharpe

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SCOTLAND AS A FINANCIAL CENTRE

National pride and a twinge of anxiety

Scotland holds an important place among Europe's finance centres. But financiers are cautious about the impact of Labour's devolution plans, says James Buxton

On several occasions this year people in Scotland have been encouraged to cast their minds back to 1685. In November of that year 172 "adventurers" - nobles, landed proprietors, merchants, judges, lawyers and women of independent means - subscribed the first £100,000 to the capital of the Bank of Scotland.

Over the last few months the tercentenary of the founding by Act of Parliament of the Bank of Scotland has been celebrated at dinners and firework displays, focusing people's minds on an institution which is an inspiring model for the Scottish financial sector.

The bank's lending south of the border now accounts for 60 per cent of its business. It demonstrates that it is possible to run a major UK financial institution from Edinburgh.

Scotland's financial sector is concentrated in Edinburgh and Glasgow, with offshoots in Aberdeen and Dundee. Together it constitutes one of Europe's secondary financial centres, a step down from London or Frankfurt but in the same league as Lyons or Manchester.

At the end of last year 206,000 people in Scotland worked in banking, insurance, finance and business services, as defined by the Department of Employment. The numbers have been roughly static since 1991, but have grown by 40 per cent since 1988, faster than employment in financial services in the UK as a whole which has risen by 28 per cent. The financial sector contributes about 15 per cent of Scotland's gross domestic product.

The central pillars of the Scottish financial community are its banks, its insurance companies and its specialist fund managers.

Unlike almost anywhere else in mainland Britain Scotland has retained its own clearing

banks: the Royal Bank of Scotland, the Bank of Scotland and the Clydesdale Bank all issue their own banknotes, and whilst the Clydesdale is a subsidiary of National Australia Bank the other two are independent.

Scotland's concentration of life assurance companies in both Edinburgh and Glasgow, led by Standard Life, Scottish Widows and Scottish Amicable, is impressive, even though they face the same problems of overcapacity as the rest of the industry. Scotland also has General Accident, a major composite insurer based in Perth.

The third pillar is the cluster of specialist fund managers, most of which originated with firms of Scottish solicitors which, more than their counterparts in England, looked after all aspects of their clients' affairs. Scotland's traditional strength has been in managing investment trusts: about a quarter of UK investment trusts are run from Scotland.

When equities under management in Edinburgh and Glasgow are added together they total \$141bn (see table), which would put Scotland just ahead of Frankfurt in fifth place in Europe. But a financial centre consists of more than funds under management. Unlike London or Zurich, Scotland lacks a securities market

and all the activities and the buzz that come with it, even though the Glasgow unit of the London stock exchange handles nearly half of all UK transactions by private investors.

Mr Grant Baird, executive director of Scottish Financial Enterprise (SFE), the financial sector's trade association, points out that Scotland can provide all the financial services which a company might require, from merchant banking to specialist lawyers and security printing. But the Scottish merchant banking sector is small and big Scottish quoted companies employ merchant banks in London, even if there are sometimes supplemented by those based in Edinburgh.

SFE was set up in 1986 when the Scottish financial community feared being swamped by financial conglomerates in the wake of Big Bang. The threat was staved off and Sir John Shaw, who was SFE's first executive director and is now its chairman, believes the sector is in rather better shape than it was then.

"Scottish institutions have become more focused, with a clearer idea of what they want to do and what's feasible," he says. He points out that though a number of them have lost their independence - Scottish Equitable, for example, was taken over in 1993 by Aegon of the Netherlands, and

the fund managers Murray Johnstone now belongs to a US company - their managements have retained their autonomy.

But he believes there is still a "fragility" about the Scottish financial sector which means that continual efforts are needed to ensure that it does not lose momentum.

The sector united in the early 1990s in a high profile campaign to have part of the planned European Central Bank located in Edinburgh - an initiative which failed to raise the city's profile.

More recently SFE and Scottish Enterprise, the development body, helped the London Stock Exchange devise the exchange's Alternative Investment Market, partly because it was seen as valuable for growing Scottish companies and partly because it was hoped part of the new market could be located in Glasgow. The latter did not materialise but stockbrokers based in Scotland have become deeply involved in AIM.

Part of the fragility of the Scottish financial sector, believes Sir John Shaw, now deputy governor of the Bank of Scotland, is "a tendency to self-limitation". He points out that although the much vaunted quality of life north of the border enables Scotland to attract and retain able people, "some people get seduced by it. They accept limits to growth when they encounter the discomfort threshold, the point at which growth is going to interfere with their fishing, with their weekends."

He also detects in some Scottish financial institutions a "collegiate style of management" which is effective in its own terms but which may make those involved "nervous of their ability to cope with differing cultures" and make it difficult for them to change. Though some elements in the Scottish financial sector are proud to keep themselves small, Sir John points to Standard Life and Scottish Widows as demonstrating that "size does matter."

An outside observer might agree that despite the growth of the banks and the life companies the Scottish financial sector lacks a certain dynamism. Despite its strong tradition of fund management, it has not created institutions on the scale of Mercury Asset Management or Save and Prosper, and the fund managers have not made serious inroads into the unit trust market.

One thing, however, has changed: it is scarcely

justifiable any longer to refer to the Scottish financial sector as being based in Charlotte Square with its slight connotations of aloofness.

About three years ago most of the big firms of fund managers, lawyers and accountants gave up the struggle to run efficient businesses in five storey buildings in the heart of Edinburgh's Georgian New Town.

They moved a few hundred yards to offices near Lothian Road, where a new financial complex is being created. Though the fund managers Ivory & Sime are still in Charlotte Square about half the other buildings there are empty.

The Scottish financial sector's next challenge is to ensure that it is not damaged by the Labour party's plans to create a devolved parliament in Scotland if it wins the next general election. Last year Sir Bruce Patullo, governor of the Bank of Scotland, urged Scottish businesses to join the debate about devolution or risk having their views ignored by the politicians.

Since then there have been several meetings between members of the financial community and Mr George Robertson, the shadow Scottish secretary. He has made clear that, although the Scottish parliament would have the power to raise the basic rate of income tax by 5p in the pound, it would not alter corporation tax nor impose a separate regulatory regime for the financial services industry north of the border.

That is a cause for relief, but few in the financial community are enthusiastic for constitutional change, partly out of a simple dislike of uncertainty. There is also a fear that people in England will not distinguish between devolution and independence, and that their English competitors could steer clients away from Scottish institutions, especially life companies, by implying that they are not completely safe as a repository for money.

Since Scottish institutions pride themselves on being stable and prudent, devolution is being seen as an unwanted extra challenge.



Tercentenary fireworks display in Edinburgh: the Bank of Scotland celebrates in style

Cities ranked by total institutional equities (\$bn)			
Rank	Target city	1994 total	1993 total
1	London	753.7	681.8
2	Zurich	379.0	375.1
3	Geneva	242.4	244.4
4	Paris	231.3	225.8
5	Frankfurt	129.1	116.7
6	EDINBURGH	113.6	107.4
7	Basel	57.5	52.3
8	Stockholm	54.6	51.6
9	Amsterdam	47.2	44.0
10	Milan	44.6	40.4
11	Brussels	43.5	48.8
12	Dusseldorf	41.8	31.9
13	GLASGOW	27.4	28.8
14	Munich	25.3	24.0
15	Rotterdam	21.7	21.2
16	The Hague	20.6	18.2
17	Vienna-Linz	18.4	15.9
18	Utrecht	18.1	15.7
19	Stuttgart	14.9	NA
20	Dublin	14.7	15.0
21	Copenhagen	14.6	10.0
22	Lugano	14.2	14.4
23	Eindhoven	12.8	12.5
24	Haarlem (Neth.)	12.1	9.1
25	Vaduz	7.4	7.5

* includes portfolio-managed shares, excludes intercompany holdings

Source: Technimark

■ Corporate finance: by James Buxton

New companies proliferate

In the first half of 1995, the banks have assisted in the birth of 11,000 new businesses

"Scotland has a very entrepreneurial environment." The remark, from a young corporate finance specialist who recently returned to Scotland after working for a London merchant bank, seems surprising at first, since the usual lament is that Scots lost their entrepreneurial drive decades ago.

Yet in the past few years a flood of initiatives has been launched to encourage people to start new businesses and help existing companies move to a different league.

Several of Scotland's local enterprise companies (the equivalent of training and enterprise councils in England) run courses to assist professionals and middle managers to set up their own businesses. Scottish Enterprise, the private sector organisation which represents the financial sector, studied the problem of bringing small companies to the Stock Exchange. Though earlier hopes that the Alternative Investment Market (AIM) might have a Scottish base were not fulfilled, Scotland has a strong representation among the companies listed on AIM.

These activities mean more business for Scotland's network of stockbrokers, lawyers, accountants, venture capital providers and merchant banks. The Glasgow corporate finance department of stockbroker Allied Provincial, which recently merged with Greig Middleton, has brought a number of companies to AIM. Its Edinburgh rival, Brewin Dolphin Bell Lawrie, is also qualified to do so.

For example, Crescendo International, a company based in Fife and in Denver, Colorado which develops and manufactures high voltage generators for medical imaging equipment, came to AIM in October in an issue underwritten by Greig Middleton which raised £4m. It is now capitalised at £45m.

SI, the investment capital group, is a major supplier of capital to companies in Scotland, investing £45m through 66 transactions in the year to March 1995. According to the

Scottish Enterprise has also helped the process of business growth by launching a scheme, unique in the UK, to provide an interest rate guarantee on bank loans for companies employing fewer than 250 people.

It hopes next year to launch the Scottish Equity Partnership, a £25m fund intended to take equity stakes of between £50,000 and £500,000 in Scottish companies, filling a gap which was created by the disproporionately large administration costs.

To do the same thing in the north of Scotland, Highlands and Islands Enterprise has already set up HIE Ventures, with an initial £2.5m of capital.

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Two years ago a public initiative was started to reverse the low start-up rate

Royal Bank Development Capital, an offshoot of the Royal Bank of Scotland, is another supplier of equity finance to companies with little or no access to capital markets. It operates both in Scotland and the rest of the UK. In a typical recent deal it provided capital, along with SI, for Precision Technology, a Scottish mechanical engineering company, to buy another engineering company, Graessner of Stuttgart.

There is only a handful of indigenous Scottish corporate finance houses. British Linen Bank, a subsidiary of Bank of Scotland, is the biggest merchant bank. It provides banking and corporate advisory services throughout the UK.

SI, the investment capital group, is one of those Edinburgh businesses which constantly provides surprises through the extent and imaginativeness of the interests in which it is involved.

often outside Scotland. For example, in 1994 it helped Waverville Mining Finance, a quoted Scottish mining finance house, to raise £6.3m to take a 22 per cent stake in Mining (Scotland) which bought the Scottish coalfield from the government.

It has sponsored three corporate capital vehicles for the Lloyd's of London insurance market including Wellington Underwriting and Premium Underwriting. It also has an investment management arm, Noble Investments, which has about £50m under management and is attracting private clients.

Noble & Co should not be confused with Noble Grossart, the best known of Scotland's smaller merchant banks. It sponsored the successful flotation in September of Morrison Construction, the Edinburgh-based construction group, which raised £20m of new capital.

Given the poor regard the market had for the construction sector, it was a brave initiative. Morrison now trades at a small premium and is capitalised at £20m.

Finally Quayle Munro, based like the last two institutions in Georgian houses in Edinburgh but the only one to be in Charlotte Square, is also the only one to be quoted on the stock exchange.

It is both a merchant bank and an investment company which came to the stock exchange in 1993 following a reverse takeover of Quayle Munro by East of Scotland Industrial Investments, the investment company it had built up.

It employs only eight people but its portfolio of quoted and unquoted investments covers companies all over Britain. It also advises the Scottish Office on privatisation.

Having advised on the sale of the Scottish Bus Group, it is currently advising the Scottish Office on involving the private sector in the state-owned Highlands and Islands Airports, and was financial adviser to British Polythene Industries in its £22m bid for Parkside International.

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*Source: Aberdeen Trust PLC 30/9/95

II SCOTLAND AS A FINANCIAL CENTRE

■ Banks: by James Buxton

Merger that raised no hackles

The TSB-Lloyds merger has sparked speculation about two other Scottish clearing banks

The merger of a prominent Scottish business with a large English one rarely passes without arousing overt opposition north of the border. But satisfaction was the main response to the merger, announced in October, of Lloyds Bank with TSB Group.

Although the bulk of TSB Group's business is outside Scotland, the company's Scottish origins were a big issue in the run up to the group's flotation in 1986. Its Scottish subsidiary TSB Bank Scotland still has its own board, and its head office, Henry Duncan House in George Street, is a landmark in Edinburgh.

The indications are that TSB Bank Scotland, whose total assets in 1994 of £3.8bn makes it Scotland's fourth largest bank, will do well from the merger because there is very little overlap in Scotland between the two banks. Lloyds' strength is in southern England and it has only four branches in Scotland.

Under the merger TSB Bank Scotland will continue to operate as a separate entity and retain its board. According to Mr Alastair Dempster, its chief executive, there will be no net job losses among its 3,200 employees. Furthermore Henry Duncan House will become the registered office of the renamed Lloyds TSB Group, boosting the ranks of companies registered in Scotland.

The existence of four clearing banks based in Scotland (three of which issue their own banknotes) is one of the most important factors distinguishing Edinburgh and Glasgow from other UK financial centres. Scottish banks have a substantially larger share of UK bank assets than Scotland's nine per cent share of the UK population.

But the flurry of takeover speculation about the two independent Scottish clearing banks which the Lloyds-TSB merger unleashed was a reminder of the vulnerability of the Scottish financial sector.



Bank of Scotland governor Sir Bruce Paitullo in his bank's London branch: 'grand designs have led other banks into trouble'

In late October wild rumours swept the London stock exchange about the future of the Royal Bank of Scotland.

The Royal Bank of Scotland is Scotland's biggest bank, and its reach extends into England where it has more than 300 branches. Its performance in 1994-95, when pre-tax profits, having doubled the previous year, rose 13 per cent to £622m, included £112m from Direct Line, its subsidiary that pioneered the direct selling of motor insurance and is now the UK's largest motor insurer.

Senior executives of the Royal Bank acknowledge privately that the Royal would be a good buy for other actors in the UK financial services industry, partly because of Direct Line, and partly because its English network would provide scope for rationalisation.

In the event no bid materialised and the Royal's independence may have benefited from clever footwork by Mr George Mathewson, the Royal's chief executive, and Mr Peter Wood, the founder and chief executive of Direct Line.

First Mr Wood warned that he might build a rival operation to Direct Line if the bank

were taken over; then the bank extended his service contract but clarified that he could still resign if he did not like a new owner.

The Royal is emerging from a period of restructuring. The branch structure has been reorganised to concentrate responsibility at key offices, resulting in the departure of some bank managers. Mr Mathewson has built up a team of senior executives who served with him in the past at the Scottish Development Agency and at St.

This October it agreed to buy the Bank of Western Australia, a retail bank in Perth, for an eventual £225m. This surprised some observers but it fitted in with the bank's other interests in Australasia. The bank has had limited success expanding in Europe.

The Clydesdale Bank, which belongs to National Australia Bank, is Scotland's third biggest clearing bank. It operates only in Scotland and partly blamed that for the fact that its pre-tax profits rose only 2.6 per cent to the £114m in 1994-95. Yet observers in Scotland consider it an institution with further profit potential.

The bank, which had total assets last year of £5.7bn, is in what it calls a "transitional phase" as it digests big changes in its operating methods.

Since mid-1993 it has moved processing from its branches to two centres and separated business from personal lending. It is now upgrading its computer systems to make its operations more flexible.

Its senior management is changing. Mr Frank Cicutto, the chief executive, has appointed a new executive team in the last 18 months and on his return to Australia next year will be replaced by Mr Fred Goodwin, a 36 year-old accountant who joined Clydesdale only in April from Touche Ross.

Mr Goodwin, who had previously been the bank's auditor, acknowledges that the reorganisation of the branches, which were made redundant and he was unemployed for three months before joining Bank of Scotland. He worked in the energy division and then the international division before becoming the clearing bank's treasurer in 1988.

But he believes that, as the effect of the changes come through, the bank's cost earnings ratio will fall sharply from its current 60 per cent. "A 40 per cent ratio is achievable," he says.

That spell on the dole has coloured his thinking on how the restructuring will affect the bank's performance.

business in its own right. "The distinction I would draw is that branches do a lot of processing. More and more stuff is done centrally and branches are turning into offices very rapidly."

As a result, he believes it is inevitable that local managers will return to having as much decision-making power and responsibility as they did 20 to 40 years ago.

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Jan 11 1996

■ Life assurance: by Colin Calder

Prepared to take casualties

The market admits it is too crowded and is bracing itself to cope with radical change

Although some analysts are making dire warnings that consolidation is about to rip through the Scottish life assurance industry its leaders are not shaking with fear, even though "fundamental shake-up" is inevitably being discussed in boardrooms.

Some life companies are considering abandoning their mutual status - under which they are owned by their policyholders - in favour of Stock Market flotation, to obtain extra capital to compete for the limited amounts of new business around.

"Consolidation in this over

blown sector is much needed," says Bill McCall, an analyst with the stockbroker Tilney & Co in Edinburgh. "Rationalisation within the industry is the only way the big players are going to increase market share."

"There are simply too many players. It is an extremely cut-throat business and margins are coming under increasing pressure."

With recent reports suggesting that up to 40 of the 100 or so life offices in the UK will have gone by the end of the decade, Mr Mike Ross, chief executive of Scottish Widows, is one who agrees that there are challenging times ahead for Scotland's life offices.

"Only the large, strong players will survive from what is an overcrowded, competitive environment into the next century. As other companies are

League table of Life Assurance houses		
Position	Name	Assets £m
1	Standard Life	30,920
2	Scottish Widows	12,688
3	Scottish Amicable	9,679
4	Scottish Equitable	4,903
5	Scottish Provident	4,680
6	Scottish Mutual	3,967
7	Scottish Mutual	3,785
8	Britannia Life	2,981

Source: Money Management, November 1995

either absorbed or fade away, the main players will be able to push up market share quite considerably."

Not that the industry in Scotland - which dates back nearly 180 years to 1816 when the Scottish Widows Fund and the Life Assurance Society were formed - has been immune from change.

Scottish Mutual lost its mutual status when it was

taken over by Abbey National for £285m in 1992; Scottish Equitable was taken over by Aegon of the Netherlands in 1993; and Britannia Life acquired Life Association of Scotland for £25m in the same year.

Mr Peter Burdon, managing director of Britannia Life, has predicted that two more Scottish companies could disappear within a decade.

The industry is a big contributor to the Scottish economy. Two-thirds of its 21,200 jobs are in Scotland, while funds under management were £53.9bn at the beginning of 1995, dipping by 1.3 per cent from the previous year's £55.1bn.

Standard Life continues to thrive. It is the biggest mutual insurer in the UK and is beginning to expand on the continent, first in Spain and next year in Germany. It hopes later to go further afield to set up a joint venture in India.

Scottish Widows is keen to grow but some observers consider it has a fairly weak "keeping our fingers crossed" strategy to achieve that.

Scottish Amicable, although third in the league table, is considered by some commentators "not to be large enough to feel safe".

Recently it held talks with the Alliance & Leicester building society about a possible merger, admitting that mutual status "was not sacrosanct". Amid the flurry of activity Mr Graeme Knox, the long-serving head of its investment management arm, departed.

Scottish Equitable seems in a strong position given its deal with Aegon, but the remaining two mutual offices, Scottish Provident and Scottish Life, are considered to be vulnerable because of their relatively small size.

Both use independent financial advisers to sell their products. According to Mr Jim Gilchrist, director of Scottish Life, that has given them "a larger slice of a falling market".

Mr Gilchrist is optimistic.



Standard Life's HQ in Edinburgh: after expansion in Europe the UK's biggest mutual insurer has eyes on India

■ Fund managers: by James Buxton

A bit of rough and tumble

Ripples are still spreading from a battle in a top Scottish fund management firm

News from Scotland's specialist fund managers normally consists of sparsely written statements about the investment trusts they run or the winning of new business.

But a press release at the end of October from Dunedin Fund Managers was different. It said Mr Hamish Leslie Melville and Mr Alan Kemp, respectively executive chairman and deputy chief executive, were resigning.

Two days later Dunedin admitted the resignations followed those of the company's marketing director in Chicago and of two senior fund managers. Not surprisingly there have since been few other topics of conversation in the discreet world of Scottish specialist fund managers.

The story has a resonance beyond the company, the second biggest specialist fund manager in Scotland with funds of about £5bn, because other investment managers fear their operations, especially those in the US, could be tainted by the bad publicity for Edinburgh generated by Dunedin's difficulties.

At Dunedin the managers resigned because of unhappiness at the forceful managerial style of Mr Leslie Melville who had markedly improved the company's performance since arriving in 1992 after a successful career in the city. Difficulties began after he replaced the company's investment director in August.

Another issue was dissatisfaction with financial incentives for key employees at Dunedin, which is 50.5 per cent owned by the British Linen Bank, an offshoot of the Bank of Scotland. Mr Leslie Melville was urging his parent company to enable him to resolve it.

Faced with defections by key staff Sir Bruce Patterson, governor of the Bank of Scotland, decided that the two top men should go. But the strategy failed because the fund managers would not change their minds and are now establishing

their own fund management operation, named Castle Rock, with offices in Chicago and Edinburgh. A further six fund managers resigned this month.

Mr Eric Sanderson, chief executive of the British Linen Bank, stepped temporarily in at Dunedin and succeeded in reassuring most of the US institutional clients who account for 40 per cent of the company's funds under management. But he has said that a small number have switched their funds elsewhere, though contracts for new US funds have been secured.

Specialist fund managers in Scotland, as distinct from life

assurance companies, had funds under management of around £40bn at the beginning of this year, according to Scottish Financial Enterprise. They are therefore minnows compared with big London fund managers such as Mercury Asset Management, and despite a respectable flow of new issues and new mandates obtained their small share of the UK market is probably declining.

Furthermore they have hitherto resisted any idea of rationalisation in the sector: if anything, the tendency is towards further fragmentation. "Why doesn't one of them do something ambitious like offer to take on all the fund management of a mutual life company?" says one observer of the Edinburgh scene.

Nevertheless, they form a distinctive cluster on the UK

financial scene and pride themselves on the detachment they believe they gain from being in Scotland and not in London. A quarter of UK investment trust assets are managed from Scotland, including the largest self-managed trust, the Alliance Trust (based in Dundee) and Scottish Investment Trust.

"Small organisations are not at a huge disadvantage in fund management," says Mr Gavin Gemmell, senior partner of Baillie Gifford, easily the biggest firm in its category with £1bn under management at the end of September.

Baillie Gifford, which won a Queens Award for Export Achievement this year because of its success in winning clients in the US and Japan, claims to be the fifth biggest provider of investment trusts in the UK. More than half its assets under management consist of UK pension funds, of which it manages more than £25bn. It would now like to develop in continental Europe.

The firm is a partnership and Mr Gemmell says: "The more turbulence we see in our industry the more sensible our ownership structure appears: being a partnership enables us to control the rate and direction of our growth."

Murray Johnstone, which is based in Glasgow, was bought two years ago by United Asset Management, a US company which owns a clutch of fund managers. UAM takes all its subsidiaries' revenue and leaves control of costs to their managers who have incentives to perform.

Mr Giles Weaver, managing director, says it is more important to concentrate on revenue than simply accumulate funds under management. Though Murray Johnstone, which manages about £5bn, is no longer a significant player in managing pensions, he points out that pension mandates can be switched at a day's notice. "There is more revenue to be had in managing investment trusts and other funds under term contracts," he says.

While WM was an established business which was bailed off from Wood Mackenzie, the stockbrokers, Bankers Trust chose in 1987 to set up in Edinburgh because of the city's very large pool of experienced investment administrators.

Other smaller fund managers are Martin Currie and Edinburgh Fund Managers, both in Edinburgh. While EFM is a quoted company, with 54 per cent of its equity belonging to British Investment Trust, some 80 per cent of Martin Currie

believing the industry is over the worst of the effect of the pensions transfer and mis-selling scandals which caused business levels to slump by nearly a third over the last two years.

"We are confident that the fall in the market has bottomed out and that new business levels should start to recover during 1996."

The two companies at the bottom end of the league table

- Scottish Mutual and Britannia Life - are actually showing considerably improved performances, with premiums rising and costs being reduced.

All they are looking for is slightly more growth but, given that they both enjoy building societies as parents, they should have the capital to do so.

The one significant blot on the horizon for the Scottish life offices remains the impact on their businesses from the possible creation by a Labour government of a Scottish parliament with tax-raising powers.

Although Labour has said there would be no change in the regulatory system for financial services in Scotland, companies fear the impact on their costs of a possible extra 3p on income tax in Scotland, and think their competitors in England might try to steer customers away from Scottish life companies.

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SCOTLAND AS A FINANCIAL CENTRE

■ PROFILE SCOTT BELL OF STANDARD LIFE

Self-effacing style of a power in the land



Standard Life is an imposing presence in Edinburgh. It occupies no fewer than 23 buildings, and is erecting a large new head office in the centre of the city. Its assets are almost three times those of its nearest competitor in Scotland, Scottish Widows.

Yet in human terms it has a modest public profile on its home ground. The same goes for Mr Scott Bell, Standard Life's group managing director. He rarely gives interviews and, unlike other leading figures in UK life assurance, seldom makes public pronouncements.

"I know our public

relations department would like me to have a higher profile, but we've never actually sought one and are happy with our profile as it is," says Mr Bell. "I don't think we are unable to exercise our influence on the affairs of our industry as a result. We do it through our trade associations."

Mr Bell, who had indicated that he would not welcome personal questions, has been with Standard Life since 1959 when he was 18. "Too long," he smiles. His manner is less that of the archetypal actuary than of a Scottish medical consultant, crisp and direct but not unfriendly.

Since he joined Standard

Life it has progressed from having total assets of about £200m to its present £40bn, making it the UK's biggest mutual life assurance company. Over that period staff numbers have risen, but not proportionately, from about 1,000 to 5,000, including staff in Canada, its biggest subsidiary.

Mr Bell says the main

factor that has enabled

Standard Life both to grow

and increase its market share

during that time, especially

in the last 20 years, is its

financial strength.

"It allows us to

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"There is much less hysteria now," said Mr Gilchrist. "You must give credit where credit is due. The Labour party have made strong efforts to communicate with the financial sector."

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£200m to its present £40bn,

making it the UK's biggest

mutual life assurance

company. Over that period

staff numbers have risen,

but not proportionately,

from about 1,000 to 5,000,

including staff in Canada,

its biggest subsidiary.

Mr Bell says the main

factor that has enabled

Standard Life both to grow

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OFFSHORE AND OVERSEAS

BERMUDA (SIS RECOGNISED)

GUERNSEY (REGULATED)™

Returns for closing December 31			
1st Account	10.00	10.00	10.00
2nd Account	10.00	10.00	10.00
3rd Account	10.00	10.00	10.00
4th Account	10.00	10.00	10.00
Jupiter Tyndall (Bermuda) Ltd			
PO Box 1167, Hamilton, Bermuda			001 809 292 2121
Jupiter Tyndall World Umbrella Fund Ltd			
Headquarters	\$13.77	15.97	13.77
Europe	\$13.77	15.97	13.77
Money (1)	\$13.77	15.97	13.77
North American	\$14.10	14.77	14.10
Overseas	\$14.10	14.77	14.10
UK Small Cap	\$14.74	15.97	14.74
Airport Investment Management			
73 Finsen Street, Hamilton, Bermuda			001 809 728 0000
Int'l. Pacific	5	\$4,465.50	5
Int'l. Pacific Fund	5	\$4,465.50	5
Newport Fund	5	\$4,354.00	5
Orion Fund Limited			
8 Front St., Hamilton, H1N 1, Bermuda			411 262 8100
Orion Nov 30		\$25.66	

BERMUDA (REGULATED)***

GUERNSEY (SIB RECOGNISE)

Asset Class	Setting	Buying	Yield	Unit
Charge	Price	Price	Rate	Class
AB Investment Managers (Guernsey) Ltd				
Per 250, St Peter Port, Guernsey CI				01481 71065
All Other Funds Ltd				
Inst 1st Equity Mgt. - 5%	£1.994	1.062	-	Units
Inst 2nd Equity Mgt. - 5%	£1.974	1.061	-	
Inst 3rd Equity Mgt. - 5%	£1.944	1.059	-	
Inst 4th Equity Mgt. - 5%	£1.914	1.057	-	
Inst 5th Equity Mgt. - 5%	£1.884	1.055	-	
Inst 6th Equity Mgt. - 5%	£1.854	1.053	-	
Inst 7th Equity Mgt. - 5%	£1.824	1.051	-	
Inst 8th Equity Mgt. - 5%	£1.794	1.049	-	
Inst 9th Equity Mgt. - 5%	£1.764	1.047	-	
Inst 10th Equity Mgt. - 5%	£1.734	1.045	-	
Adams & Novis Fd Mngmt (Guernsey) Ltd				
PO Box 255, St Peter Port Guernsey CI				01481 71065
Woodland Bond Fund Inc	£1.523	1.869	1.75	Units
Equitable International Fund Managers (Guernsey) Ltd				
PO Box 255, St Peter Port Guernsey CI				01481 71065
Starling High Vol. - 5%	£0.564	1.005	5.77	Units
Guinness Flight Fd Mngmt (Guernsey) Ltd				
PO Box 250, St Peter Port, Guernsey				01481 71065
Erskinefield				
Erskinefield Flight International Access Fund (Inst.)				01481 71065

US Dollar Money	57	77
Sterling Money	30	31
Yen Money	30	30
Deutschmark Money	20	14
Canadian Money	20	19
Swiss Franc Money	20	14
French Franc Money	20	16

IRELAND ASB RECOGNISED

IRELAND

IRELAND (REGULATED) (**)		Selling Price	Buying Price	Yield Gross
AIB Fund Management Ltd				
AIB Global Funds Unit Trust Holdings Fund				
\$16 Managed Currency	\$10.25	\$10.25		
\$16 Managed Currency	\$11.67	\$11.75		
\$16 Managed Currency	\$10.71	\$10.75		
Contourbox Managed Fund	\$10.51	\$10.55		
Managed Growth	\$10.50	\$10.54		
Apollo Fund Plc				
Aug 29, 2001	\$11.6968	\$11.6968	0.001	
Argusita European Hedge Fund plc				
NAV	\$7.08		0.001	
Asia Dynamic Growth Fund Plc				
NAV	\$10.70			
Asia Small Cos Growth Fund (u)				
NAV	\$9.58			
Asian Diversified Equity Fund Plc				
NAV	\$9.55			
Asian Emerging Markets Fund Plc				
NAV	\$5.63			
Asian Gateway Fund Plc				
NAV	\$6.722			
Asian Growth Fund Plc				
NAV	\$3.92			
Asset Korea Fund				
NAV	\$10.43			
Atlantic Korean Smaller Companies Fund				
NAV (excl. Div. 1.5)	\$2.51			
NAV (excl. Div. 4)	\$2.51			
BT Fund Managers (Ireland) Ltd (g)				
BTIM US Fund	\$11.01	\$11.05		
B2W Investment Management Ireland Ltd				
B2W Fund Income Selector Fund Plc				
Starting Liquidity A	\$10.12	\$10.43		
\$10.00 Liquidity A	\$10.12	\$10.43		
\$10.00 Liquidity B	\$10.12	\$10.43		
\$10.00 Liquidity C	\$10.12	\$10.43		
\$10.00 Liquidity D	\$10.12	\$10.43		
\$10.00 Liquidity E	\$10.12	\$10.43		
\$10.00 Liquidity F	\$10.12	\$10.43		
\$10.00 Liquidity G	\$10.12	\$10.43		
\$10.00 Liquidity H	\$10.12	\$10.43		
\$10.00 Liquidity I	\$10.12	\$10.43		
\$10.00 Liquidity J	\$10.12	\$10.43		
\$10.00 Liquidity K	\$10.12	\$10.43		
\$10.00 Liquidity L	\$10.12	\$10.43		
\$10.00 Liquidity M	\$10.12	\$10.43		
\$10.00 Liquidity N	\$10.12	\$10.43		
\$10.00 Liquidity O	\$10.12	\$10.43		
\$10.00 Liquidity P	\$10.12	\$10.43		
\$10.00 Liquidity Q	\$10.12	\$10.43		
\$10.00 Liquidity R	\$10.12	\$10.43		
\$10.00 Liquidity S	\$10.12	\$10.43		
\$10.00 Liquidity T	\$10.12	\$10.43		
\$10.00 Liquidity U	\$10.12	\$10.43		
\$10.00 Liquidity V	\$10.12	\$10.43		
\$10.00 Liquidity W	\$10.12	\$10.43		
\$10.00 Liquidity X	\$10.12	\$10.43		
\$10.00 Liquidity Y	\$10.12	\$10.43		
\$10.00 Liquidity Z	\$10.12	\$10.43		
Bank of Ireland Unit Managers Ltd				
Asian Equity Phoenix	\$9.70			
Asian Growth	\$9.83			
Eurobond Fund	\$10.00			
Eurobond Fund - 30 Day	\$10.04	\$10.04		
Eurobond Fund - 90 Day	\$10.04	\$10.04		
Eurobond Fund - 180 Day	\$10.04	\$10.04		
Eurobond Fund - 360 Day	\$10.04	\$10.04		
Eurobond Fund - 540 Day	\$10.04	\$10.04		
Eurobond Fund - 720 Day	\$10.04	\$10.04		
Eurobond Fund - 900 Day	\$10.04	\$10.04		
Eurobond Fund - 1080 Day	\$10.04	\$10.04		
Eurobond Fund - 1260 Day	\$10.04	\$10.04		
Eurobond Fund - 1440 Day	\$10.04	\$10.04		
Eurobond Fund - 1620 Day	\$10.04	\$10.04		
Eurobond Fund - 1800 Day	\$10.04	\$10.04		
Eurobond Fund - 1980 Day	\$10.04	\$10.04		
Eurobond Fund - 2160 Day	\$10.04	\$10.04		
Eurobond Fund - 2340 Day	\$10.04	\$10.04		
Eurobond Fund - 2520 Day	\$10.04	\$10.04		
Eurobond Fund - 2700 Day	\$10.04	\$10.04		
Eurobond Fund - 2880 Day	\$10.04	\$10.04		
Eurobond Fund - 3060 Day	\$10.04	\$10.04		
Eurobond Fund - 3240 Day	\$10.04	\$10.04		
Eurobond Fund - 3420 Day	\$10.04	\$10.04		
Eurobond Fund - 3600 Day	\$10.04	\$10.04		
Eurobond Fund - 3780 Day	\$10.04	\$10.04		
Eurobond Fund - 3960 Day	\$10.04	\$10.04		
Eurobond Fund - 4140 Day	\$10.04	\$10.04		
Eurobond Fund - 4320 Day	\$10.04	\$10.04		
Eurobond Fund - 4500 Day	\$10.04	\$10.04		
Eurobond Fund - 4680 Day	\$10.04	\$10.04		
Eurobond Fund - 4860 Day	\$10.04	\$10.04		
Eurobond Fund - 5040 Day	\$10.04	\$10.04		
Eurobond Fund - 5220 Day	\$10.04	\$10.04		
Eurobond Fund - 5400 Day	\$10.04	\$10.04		
Eurobond Fund - 5580 Day	\$10.04	\$10.04		
Eurobond Fund - 5760 Day	\$10.04	\$10.04		
Eurobond Fund - 5940 Day	\$10.04	\$10.04		
Eurobond Fund - 6120 Day	\$10.04	\$10.04		
Eurobond Fund - 6300 Day	\$10.04	\$10.04		
Eurobond Fund - 6480 Day	\$10.04	\$10.04		
Eurobond Fund - 6660 Day	\$10.04	\$10.04		
Eurobond Fund - 6840 Day	\$10.04	\$10.04		
Eurobond Fund - 7020 Day	\$10.04	\$10.04		
Eurobond Fund - 7200 Day	\$10.04	\$10.04		
Eurobond Fund - 7380 Day	\$10.04	\$10.04		
Eurobond Fund - 7560 Day	\$10.04	\$10.04		
Eurobond Fund - 7740 Day	\$10.04	\$10.04		
Eurobond Fund - 7920 Day	\$10.04	\$10.04		
Eurobond Fund - 8100 Day	\$10.04	\$10.04		
Eurobond Fund - 8280 Day	\$10.04	\$10.04		
Eurobond Fund - 8460 Day	\$10.04	\$10.04		
Eurobond Fund - 8640 Day	\$10.04	\$10.04		
Eurobond Fund - 8820 Day	\$10.04	\$10.04		
Eurobond Fund - 9000 Day	\$10.04	\$10.04		
Eurobond Fund - 9180 Day	\$10.04	\$10.04		
Eurobond Fund - 9360 Day	\$10.04	\$10.04		
Eurobond Fund - 9540 Day	\$10.04	\$10.04		
Eurobond Fund - 9720 Day	\$10.04	\$10.04		
Eurobond Fund - 9900 Day	\$10.04	\$10.04		
Eurobond Fund - 10080 Day	\$10.04	\$10.04		
Eurobond Fund - 10260 Day	\$10.04	\$10.04		
Eurobond Fund - 10440 Day	\$10.04	\$10.04		
Eurobond Fund - 10620 Day	\$10.04	\$10.04		
Eurobond Fund - 10800 Day	\$10.04	\$10.04		
Eurobond Fund - 10980 Day	\$10.04	\$10.04		
Eurobond Fund - 11160 Day	\$10.04	\$10.04		
Eurobond Fund - 11340 Day	\$10.04	\$10.04		
Eurobond Fund - 11520 Day	\$10.04	\$10.04		
Eurobond Fund - 11700 Day	\$10.04	\$10.04		
Eurobond Fund - 11880 Day	\$10.04	\$10.04		
Eurobond Fund - 12060 Day	\$10.04	\$10.04		
Eurobond Fund - 12240 Day	\$10.04	\$10.04		
Eurobond Fund - 12420 Day	\$10.04	\$10.04		
Eurobond Fund - 12600 Day	\$10.04	\$10.04		
Eurobond Fund - 12780 Day	\$10.04	\$10.04		
Eurobond Fund - 12960 Day	\$10.04	\$10.04		
Eurobond Fund - 13140 Day	\$10.04	\$10.04		
Eurobond Fund - 13320 Day	\$10.04	\$10.04		
Eurobond Fund - 13500 Day	\$10.04	\$10.04		
Eurobond Fund - 13680 Day	\$10.04	\$10.04		
Eurobond Fund - 13860 Day	\$10.04	\$10.04		
Eurobond Fund - 14040 Day	\$10.04	\$10.04		
Eurobond Fund - 14220 Day	\$10.04	\$10.04		
Eurobond Fund - 14400 Day	\$10.04	\$10.04		
Eurobond Fund - 14580 Day	\$10.04	\$10.04		
Eurobond Fund - 14760 Day	\$10.04	\$10.04		
Eurobond Fund - 14940 Day	\$10.04	\$10.04		
Eurobond Fund - 15120 Day	\$10.04	\$10.04		
Eurobond Fund - 15300 Day	\$10.04	\$10.04		
Eurobond Fund - 15480 Day	\$10.04	\$10.04		
Eurobond Fund - 15660 Day	\$10.04	\$10.04		
Eurobond Fund - 15840 Day	\$10.04	\$10.04		
Eurobond Fund - 16020 Day	\$10.04	\$10.04		
Eurobond Fund - 16200 Day	\$10.04	\$10.04		
Eurobond Fund - 16380 Day	\$10.04	\$10.04		
Eurobond Fund - 16560 Day	\$10.04	\$10.04		
Eurobond Fund - 16740 Day	\$10.04	\$10.04		
Eurobond Fund - 16920 Day	\$10.04	\$10.04		
Eurobond Fund - 17100 Day	\$10.04	\$10.04		
Eurobond Fund - 17280 Day	\$10.04	\$10.04		
Eurobond Fund - 17460 Day	\$10.04	\$10.04		
Eurobond Fund - 17640 Day	\$10.04	\$10.04		
Eurobond Fund - 17820 Day	\$10.04	\$10.04		
Eurobond Fund - 18000 Day	\$10.04	\$10.04		
Eurobond Fund - 18180 Day	\$10.04	\$10.04		
Eurobond Fund - 18360 Day	\$10.04	\$10.04		
Eurobond Fund - 18540 Day	\$10.04	\$10.04		
Eurobond Fund - 18720 Day	\$10.04	\$10.04		
Eurobond Fund - 18900 Day	\$10.04	\$10.04		
Eurobond Fund - 19080 Day	\$10.04	\$10.04		
Eurobond Fund - 19260 Day	\$10.04	\$10.04		
Eurobond Fund - 19440 Day	\$10.04	\$10.04		
Eurobond Fund - 19620 Day	\$10.04	\$10.04		
Eurobond Fund - 19800 Day	\$10.04	\$10.04		
Eurobond Fund - 19980 Day	\$10.04	\$10.04		
Eurobond Fund - 20160 Day	\$10.04	\$10.04		
Eurobond Fund - 20340 Day	\$10.04	\$10.04		
Eurobond Fund - 20520 Day	\$10.04	\$10.04		
Eurobond Fund - 20700 Day	\$10.04	\$10.04		
Eurobond Fund - 20880 Day	\$10.04	\$10.04		
Eurobond Fund - 21060 Day	\$10.04	\$10.04		
Eurobond Fund - 21240 Day	\$10.04	\$10.04		
Eurobond Fund - 21420 Day	\$10.04	\$10.04		
Eurobond Fund - 21600 Day	\$10.04	\$10.04		
Eurobond Fund - 21780 Day	\$10.04	\$10.04		
Eurobond Fund - 21960 Day	\$10.04	\$10.04		
Eurobond Fund - 22140 Day	\$10.04	\$10.04		
Eurobond Fund - 22320 Day	\$10.04	\$10.04		
Eurobond Fund - 22500 Day	\$10.04	\$10.04		
Eurobond Fund - 22680 Day	\$10.04	\$10.04		
Eurobond Fund - 22860 Day	\$10.04	\$10.04		
Eurobond Fund - 23040 Day	\$10.04	\$10.04		
Eurobond Fund - 23220 Day	\$10.04	\$10.04		
Eurobond Fund - 23400 Day	\$10.04	\$10.04		
Eurobond Fund - 23580 Day	\$10.04	\$10.04		
Eurobond Fund - 23760 Day	\$10.04	\$10.04		
Eurobond Fund - 23940 Day	\$10.04	\$10.04		
Eurobond Fund - 24120 Day	\$10.04	\$10.04		
Eurobond Fund - 24300 Day	\$10.04	\$10.04		
Eurobond Fund - 24480 Day	\$10.04	\$10.04		
Eurobond Fund - 24660 Day	\$10.04	\$10.04		
Eurobond Fund - 24840 Day	\$10.04	\$10.04		
Eurobond Fund - 25020 Day	\$10.04	\$10.04		
Eurobond Fund - 25200 Day	\$10.04	\$10.04		
Eurobond Fund - 25380 Day	\$10.04	\$10.04		
Eurobond Fund - 25560 Day	\$10.04	\$10.04		
Eurobond Fund - 25740 Day	\$10.04	\$10.04		
Eurobond Fund - 25920 Day	\$10.04	\$10.04		
Eurobond Fund - 26100 Day	\$10.04	\$10.04		
Eurobond Fund - 26280 Day	\$10.04	\$10.04		
Eurobond Fund - 26460 Day	\$10.04	\$10.04		
Eurobond Fund - 26640 Day	\$10.04	\$10.04		
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Eurobond Fund - 27540 Day	\$10.04	\$10.04		
Eurobond Fund - 27720 Day	\$10.04	\$10.04		
Eurobond Fund - 27900 Day	\$10.04	\$10.04		
Eurobond Fund - 28080 Day	\$10.04	\$10.04		
Eurobond Fund - 28260 Day	\$10.04	\$10.04		
Eurobond Fund - 28440 Day	\$10.04	\$10.04		
Eurobond Fund - 28620 Day	\$10.04	\$10.04		
Eurobond Fund - 28800 Day	\$10.04	\$10.04		
Eurobond Fund - 28980 Day	\$10.04	\$10.04		
Eurobond Fund - 29160 Day	\$10.04	\$10.04		
Eurobond Fund - 29340 Day	\$10.04	\$10.04		
Eurobond Fund - 29520 Day	\$10.04	\$10.04		
Eurobond Fund - 29700 Day	\$10.04	\$10.04		
Eurobond Fund - 29880 Day	\$10.04	\$10.04		
Eurobond Fund - 30060 Day	\$10.04	\$10.04		
Eurobond Fund - 30240 Day	\$10.04	\$10.04		
Eurobond Fund - 30420 Day	\$10.04	\$10.04		
Eurobond Fund - 30600 Day	\$10.04	\$10.04		
Eurobond Fund - 30780 Day	\$10.04	\$10.04		
Eurobond Fund - 30960 Day	\$10.04	\$10.04		
Eurobond Fund - 31140 Day	\$10.04	\$10.04		
Eurobond Fund - 31320 Day	\$10.04	\$10.04		
Eurobond Fund - 31500 Day	\$10.04	\$10.04		
Eurobond Fund - 31680 Day	\$10.04	\$10.04		
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Eurobond Fund - 32040 Day	\$10.04	\$10.04		
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Eurobond Fund - 32580 Day	\$10.04	\$10.04		
Eurobond Fund - 32760 Day	\$10.04	\$10.04		
Eurobond Fund - 32940 Day	\$10.04	\$10.04		
Eurobond Fund - 33120 Day	\$10.04	\$10.04		
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Eurobond Fund - 33480 Day	\$10.04	\$10.04		
Eurobond Fund - 33660 Day	\$10.04	\$10.04		
Eurobond Fund - 33840 Day	\$10.04	\$10.04		</

Yield Taiwan Fund
NAV 5997.00

4 282345
LUXEMBOURG (SIR RECOGN)

SEF International Bond - 1 East 25th
SEF Life Global Management Ltd (P.O. Box 22, Casterton, 3620
Global Portfolio

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The logo for Conrad Istanbul is displayed within a dark rectangular frame. The word 'CONRAD' is written in a large, serif, all-caps font. Below it, 'ISTANBUL' is written in a smaller, sans-serif, all-caps font. At the bottom of the frame, the text 'A HILTON HOTEL' is visible in a smaller, sans-serif font.

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in **ISTANBUL**
stay in touch.

FT

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Finance

FT GUIDE TO THE WEEK

MONDAY 11

European parliament sits

The European Parliament starts a week-long plenary session in Strasbourg. The highlight comes on Wednesday, when MEPs deliver their verdict on the proposed customs union between the European Union and Turkey. A simple majority of those MEPs voting is required if it is to come into effect on January 1. Recent signs are that MEPs have decided to back the accord after months of resistance because of Turkey's human rights record.

Dini confers with Kohl

Lamberto Dini, Italy's prime minister, visits Bonn to discuss the forthcoming EU summit in Madrid with Germany's Chancellor Helmut Kohl. Italy takes over the rotating presidency of the Union on January 1, and oversees the beginning of the intergovernmental conference, another issue which is likely to dominate the talks.

FT Surveys

Charity Fund Investment and Scotland as a Financial Centre.

Holidays

Namibia, Thailand (Constitution Day), Venezuela.



Sotheby's in New York hopes to sell an unpublished 72-page manuscript of Albert Einstein's Special Theory of Relativity for up to \$6m on Monday

Saleroom

Phillips, London, is offering a recently discovered landscape with a rainbow by Turner. Two Canadian restorers bought a canvas to practise on and found the Turner when they had removed a garish overpainting. The work is in poor condition, but has been verified on the strength of a fingerprint in the paint that matches one on a recognised Turner. The estimate is £120,000 (\$190,000).

Rugby union

Oxford meet Cambridge for the annual Varsity Match at Twickenham, London.

FT Surveys

Austria and Business Books (European editions only).

Holidays

Kenya, Mexico, Russia.

WEDNESDAY 13

UK economy

Kenneth Clarke, chancellor of the exchequer, and Eddie George, governor of the Bank of England, hold their monthly discussion of monetary policy. The chancellor may be tempted to cut base rate from 6.75 per cent, as tax cuts in last month's Budget were fairly restrained and growth is slowing. However, Mr Clarke insists that he can achieve his growth forecasts without any cuts. Mr George, however, will be reluctant to endorse a cut, since the Bank remains concerned about the longer term inflation profile.

Football

Underdogs Ireland meet the flamboyant Netherlands at Anfield, Liverpool, in a play-off qualifier for next year's European championship finals.

FT Surveys

Italian Finance and Industry and World Commercial Vehicles.

Holidays

Malta.

THURSDAY 14

Bosnia peace accord signing

The Bosnia peace agreement reached last month in Dayton, Ohio, is due to be signed in Paris by the leaders of Serbia, Croatia and Bosnia in a bid to end nearly four years of bitter conflict. The Paris conference will also include a meeting of Moslem and western states which have been involved in the peace process and a discussion of how to reduce tension in the whole Balkan region.

Asean summit in Bangkok

Heads of government from the Association of South East Asian Nations (Asean), which groups Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam, meet for their fifth formal summit since Asean was established in 1967 (to Dec 15). They will be joined by leaders from Burma, Cambodia and Laos, which wish to join the organisation. The 10 countries will sign a treaty declaring the region a nuclear weapons free zone and discuss accelerating tariff reduction within the Asean free trade area.

ECONOMIC DIARY

Statistics to be released this week			
Day Released	Country		
Mon	Japan		
Mon	Nov Bank of Japan data	Median Forecast	Previous Actual
Mon	N/A		
Dec 11	France	Nov consumer price index prelim*	0.1%
			0.1%
Dec 11	France	Nov consumer price index prelim**	1.9%
			1.8%
Dec 11	UK	Nov producer price index input*	0.1%
			-0.3%
Dec 11	UK	Nov producer price index input**	6.7%
			7.8%
Dec 12	UK	Nov producer price index output*	0.2%
			0.2%
Dec 12	UK	Nov producer price index output**	4.5%
			4.6%
Dec 12	UK	Nov PPI, ex-food, drink & tobacco**	4.6%
			4.8%
Dec 12	Spain	Nov registered unemployment rate	15.4%
			15.4%
Dec 12	N'Ilands	Oct producer price index**	1.7%
			2.7%
Tues	US	Nov producer price index	0.2%
			-0.1%
Dec 12	US	Ditto ex-food & energy	0.2%
			unch
Dec 12	US	3rd qtr current a/c	\$43.6bn
Dec 12	US	Nov Atlanta Fed index	-6.1
Dec 12	US	Johnson Redbook w/e Dec 9	-1.6%
Dec 12	Japan	Oct mach'y orders ex power/ships*	7.6%
Dec 12	Japan	Oct mach'y ord ex power/ships**	-3.9%
Dec 12	Wed	US Nov retail sales	0.6%
Dec 13	US	Nov retail sales ex-autos	0.4%
Dec 13	UK	Nov unemployment	-5,000
Dec 13	UK	Oct average earnings	3.25%
Dec 13	UK	Oct unit wages 3 months**	3.8%
Dec 13	UK	Nov retail sales*	0.4%
Dec 13	UK	Nov retail sales**	0.5%
Dec 13	Canada	Nov leading indicator†	0.1%

*month on month, **year on year, †seasonally adjusted

Statistics, courtesy MMS International.

Other economic news

Monday: As Christmas shopping gets under way in many countries, there will be a feast of price and sales data for the markets.

November's consumer price data in France are showing continued low inflation pressures.

Producer price data in the UK may reveal slower growth in input and output cost increases in November.

Meanwhile, retail sales figures in Germany should highlight further consumer weakness in October.

Wednesday: In the UK, average earnings growth is likely to be unchanged in October, with no change in unit wage costs. But in spite of this flat wage profile, retail sales are expected to rebound in November, after October's poor figure.

Thursday: UK retail prices data are likely to show little change in the inflation rate in November. US consumer price figures are also expected to paint a fairly flat inflation profile in November.

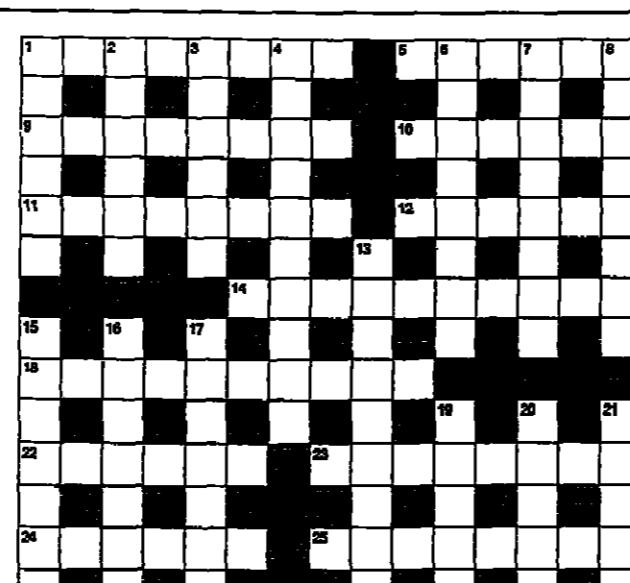
Friday: Meanwhile, Spain's inflation rate is also expected to remain unchanged between October and November, albeit running at relatively high rates compared with most of Europe.

ACROSS

- Model found to be lacking original parts (6)
- Caught by traffic light at bend in the road (6)
- Josiah, we hear, is a two club man (8)
- Impassive when I'd lost, and (6)
- is able to sign for cagebirds (8)
- Shooting star's remote origins (6)
- Balanced books without any profit (10)
- Pull leg about being in bed that's untidy (10)
- Variables due to many pay increases (6)
- First class student? (8)
- Ceremonial trial rearranged about the middle of January (6)
- Jo prayed to be free from danger (8)
- It may provide a crash course for the fair driver (6)
- Flag-ship rounds end of pier (8)
- What stimulated a half-back to be a striker? (6)
- Scholar makes notes in exercise-book (6)
- Dramatis in conflict about method of payment (6)
- Rock layer, say, elevated to an ancient monument (10)
- He comes in to wait, finally (2,3,3)
- One is convinced there's some sort of evil in drink (8)
- Does it provide treatment for the hot and peevish? (3,5)
- About to be beaten, but don't turn back (4,6)
- Students better out of sight (6)
- Confessed to having been taken in (8)
- Brave opponent, but he doesn't look it (8)
- It might disturb one's reflections by the riverside (6)
- Worker on edge in Ireland (6)
- The plea and the pleader (8)

DOWN

- What stimulated a half-back to be a striker? (6)
- Scholar makes notes in exercise-book (6)
- Dramatis in conflict about method of payment (6)
- Rock layer, say, elevated to an ancient monument (10)
- He comes in to wait, finally (2,3,3)
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MONDAY PRIZE CROSSWORD

No. 8,941 Set by DANTE

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution, and a £100 cash prize for the second correct solution will be awarded. Solution by Thursday December 21 to: Financial Times, 1 Southwark Bridge, London SE1 9EL. Solution on Wednesday December 27. Please allow 28 days for delivery of prizes.

Name _____

Address _____

Winners 8,929

J.V. Tiller, Epsom, Surrey
Turlough O'Leary, Dublin
C.R. Fenton, Gerrards Cross
Pamela Payne-Mitchell, Lancaster
Simon Level, London SW11
Mrs M. Moss, Hampstead

Solution 8,929

HORNPIPE MADCAP
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SEAFARER CHOKE
S D I E B E L
AVENGER FINISH
R H E D E S E A
DECENTURES
A C E N D S Y E
CORIOLANUS
A A O I C L A P
DUCATIS STRANGER
E X L I M E U
MAPLES MONDRIAN
I O S N A N E
CUTEST ASSEUAGED

Cricket

Last week, England captain Mike Atherton scored an heroic, unbeaten, second-innings, 107-hour 185 against South Africa in Johannesburg, to force a draw in the 2nd Test match. After two draws, attention focuses on Durban, where the 3rd Test starts today.

FT Surveys

FT Exporter (European editions only) and Thailand.

FRIDAY 15

European Council in Madrid

The Spanish presidency hosts a two-day European Union summit. Leaders are expected to agree the name of the single European currency and a timetable for its phased launch from 1999. Spain will also try to persuade EU partners to agree a start-date for accession negotiations with central and eastern European countries after the conclusion of the intergovernmental conference due to open next year.

US budget crisis

The "continuing resolution" which provides temporary federal funding expires, threatening a second partial shutdown of government unless President Bill Clinton and congressional Republicans agree on a new resolution to keep it temporarily funded. Neither side wants to be blamed for a pre-Christmas withdrawal of services, making an extension into the New Year likely, while overall balanced budget negotiations continue.

New Hampshire deadline

Candidates must register by the end of today for the New Hampshire presidential primary election on February 20. President Bill Clinton faces no serious challenge as Democrat contender; Republican front-runner Senator Bob Dole has a number of rivals. This should be the first primary, though Delaware and Louisiana are both bidding for earlier dates.

Siemens breaks new ground

The cornerstone for a £1.1bn semi-conductor fabrication plant being developed by the German electronics group Siemens in North Tyneside, north-east England, is to be laid at a ceremony attended by Michael Heseltine, UK deputy prime minister, and senior representatives of Siemens.

Mastering Management

The eighth part of the FT's 20-part series appears in the UK edition. The ninth part will appear on Friday January 5 1996, after a seasonal break. Non-UK readers can take out a subscription. Contact: PO Box 384, Sutton, Surrey, SM1 4XX, UK. Tel: +44 181 770 9772, Fax: +44 181 643 7330.

FT Survey

Sweden.

SATURDAY

Japanese politics

Japan's main opposition New Frontier party Shimamoto is to accept candidates in its party's first presidential election since its formation last December. The vote will not be limited to Shimamoto Diet members and other party members; any Japanese 18 or older who pays a "participation fee" of Y1,000 (\$10) may vote.

Rugby union

England meet Western Samoa at Twickenham, London.

SUNDAY

Parliamentary polls in Russia

The second post-Soviet election for the Duma sees a dizzying array of 43 parties competing to breach the 5 per cent threshold of support needed to win seats. The economy and Russia's reduced global role are among the most emotive issues in a lively campaign fought largely through the media. Unreliable opinion polls put a rejuvenated Communist Party on top, with roughly 20 per cent support. It calls for a strong state, slower economic reform and a recreated Soviet Union makes it natural allies among agrarians and the nationalist parties, also expected to do well. Yabloko, led by a liberal economist, may turn out to be the largest grouping backing market reform as Yegor Gaidar's once-pre-eminent Russia's Choice party has lost popular support. Prime Minister Victor Chernomyrdin's Our Home is Russia party defied the status quo.

Austrian general election

Austrians elect a new parliament for the second time in 14 months. The last was dissolved when the ruling coalition of Social Democrats and the conservative People's Party could not agree on measures to cut a ballooning deficit.

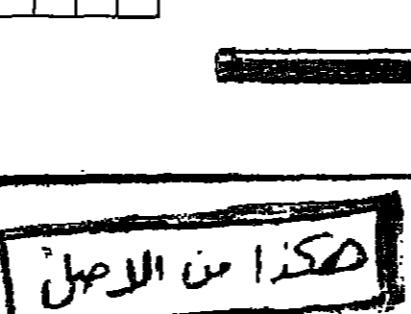
Opinion polls indicate the People's Party is unlikely to realise its goal of displacing the Social Democrats as the biggest party. Jörg Haider, populist leader of the right-wing Freedom party, is expected to consolidate his position as the main opposition force, with about a quarter of the vote. But with at least a fifth of voters undecided, a surprise cannot be ruled out.

Haiti chooses a president

A successor to Haiti's President Jean-Bertrand Aristide is to be elected in a further test of international efforts to establish democracy in the Caribbean nation. The constitution bars consecutive terms for presidents, and the front-runner is René Preval, a former prime minister supported by the Lavalas coalition which backs Aristide and controls parliament. Campaigning has been low-key and a low turnout is expected.

Compiled by Patrick Stiles.

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JOTTER PAD